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EXPERIENCE GAINED IN TECHNICAL COOPERATION RELATING TO FOREIGN DIRECT INVESTMENT AND TRANSNATIONAL CORPORATIONS

Technical cooperation activities

Report by the UNCTAD Secretariat

SUMMARY

This report provides a description of some of the major activities that have been carried out by the Programme on Transnational Corporations through its technical cooperation work during 1993. The report reviews activities concerning general policy reform regarding foreign investment as well as sectoral policy reform, with a particular focus on natural resources development. The report then describes some of the activities related to human resources development. Finally, the report examines the impact of the technical cooperation programme on host developing countries.

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I. INTRODUCTION

1. In its resolution 1993/49, paragraph 4, the Economic and Social Council requested the Secretary-General to submit to the Commission at its twentieth session reports on experience gained in technical cooperation relating to foreign direct investment and transnational corporations (TNCs). In this connection, a number of delegations attending the nineteenth session of the Commission requested that in future the Secretariat provide more detailed information on its advisory and training activities and their impact on host developing countries. This report has been prepared in response to these requests.

2. Developing countries as well as those with economies in transition have all continued the trend of policy reform aimed at creating a vibrant private sector as well as attracting increased participation of foreign investors. For that purpose, revisions of the relevant legal framework have attempted to keep pace with the increasing efforts by all these countries to highlight the business opportunities they offer. To enhance the national capacities in this area the Programme on Transnational Corporations has continued to assist Governments in the policy and legal reform processes that support the encouragement of the private sector in general and the attraction of foreign investment in particular. This report highlights the main areas of assistance provided. The examples cited relate to requests by Governments for technical cooperation assistance in 1993.

3. During the past year, many requests by Governments for assistance have, as in the past, particularly focused on the review and revision of legislation governing foreign investment. But in most cases advice has inevitably had to be linked and followed up with advice regarding all the other basic issues that impact on the creation of an optimal investment climate. Of special interest to the work programme, however, is that 1993 evidenced a trend in that Governments increasingly tend to seek advice on not just how to attain the basic level of attractiveness for foreign investors, but more so how to be competitive among all the countries seeking the same investors.

4. The issue of competitiveness takes on a special aspect in the case of some of the countries with economies in transition. There, the science research and development sector has grown and flourished considerably through science institutes or enterprises that were supported by the central governments for the past 30 to 40 years. But with reduced government subsidies, the science sector lost, among other things, its market and its main source of funding. Nevertheless, these countries still have technology developed over the years which they now wish to market abroad. But the high-technology international markets abroad have recently become extremely competitive. Entering into alliances with TNCs could provide a competitive edge in marketing, which the staff of the science institutes and related enterprises in the former centrally planned economies may otherwise take a long time to acquire. The Programme on Transnational Corporations initiated one project in 1991 to promote such partnerships and 1993 saw a significant demand from a number of transitional economies for similar projects. The burgeoning programme on competitiveness is also being adapted for the benefit of the more traditional market-oriented economies.

5. In 1993, as in previous years, assistance in the area of natural resources formed a large component of the technical cooperation programme. Most of this work was related to the minerals and petroleum sectors. It concerned not only legislative and policy issues, but also contractual issues. Legislative and policy work undertaken or completed ranged from assistance in fine tuning existing minerals and petroleum arrangements to complete overhaul of such arrangements. Contract-related work comprised reviews of existing or proposed contracts.

6. While the work in this area was wide-ranging a pattern was discernible. In host countries with established market-based economies there is increasing awareness of and sophistication concerning the key policy issues involved in successfully organizing mineral and petroleum investment. Hence among requests made for technical assistance relating to policy matters there was greater demand for support in the fine tuning of well-established and, indeed successful, natural resource arrangements. However, this greater policy sophistication is not always matched by (a) the ability to handle the detailed business arrangements that accompany natural resources investment or (b) a capacity to monitor and audit operations to ensure full compliance with legal obligations or contractual commitments. Several requests for assistance therefore concerned the latter issues and it may be a growing trend in the technical cooperation work concerning the natural resources sector. On the other hand there is continuing need for significant overhaul and modernization of natural resources laws and policies in those transitional economies which now wish private investment to take the instrumental role. While there is no shortage in those transitional economies of non-financial technical capacity, which was developed in the State-owned enterprises, there is still much to digest about policy matters.

7. Human resources development has always been an important component of the technical cooperation programme; 1993 was no exception. In fact there was a large number of requests for training assistance and the ability to provide correspondingly was only curtailed by the limitation of available funds.

II. GENERAL POLICY REFORM REGARDING FOREIGN INVESTMENT

A. Review and revision of investment-related legislation

8. In many developing countries a single law, often referred to as the investment code, is still used as the vehicle to summarize the objectives, privileges, terms and conditions for the implementation of investment activities in a given environment. (Quite often, such laws are also referred to as foreign investment codes, in which case they specifically deal with just foreign direct investment.) Technical assistance is sought in drafting new codes or revising existing legislation.

9. The assistance in drafting, reviewing or revising investment-related legislation has mainly been sought in relation to two matters. First, the Programme's collective experience is brought to bear on considerations of what should be expected, in any given context, to be foreign investors' basic requirements. Two such requirements seem of particular concern to large foreign investors in most developing countries. One is an attractive foreign exchange

regulatory scheme. The other concerns security of title - foreign investors attach considerable importance to a guarantee that in the event of expropriation the amount of compensation and the manner of payment could, in the case of a dispute, be referred for final determination to international arbitration. Second, advice is sought in government deliberations over how the code can be used as a vehicle for indicating which categories of business activities are open to foreign investment and which, if any, are to be favoured with special concessions.

10. In the provision of technical assistance in this area, perhaps the most fundamental flaw of government policy most frequently encountered is that, in trying to cover all the concerns of foreign investors, some investment codes unsuccessfully attempt to be an all too encompassing law. This is because the code is used as a "doctor" to cure all the perceived ills of the rest of the general legislative framework governing foreign investment. For example, in a southern African country, the doctoring was done by providing fiscal incentives in the context of an otherwise very unattractive tax regime with extremely high indirect taxes. The Programme on Transnational Corporations advised the Government to revise its fiscal regime related to indirect taxes rather than, as was contemplated, to try and fix parts of it through concessions granted under the investment code.

11. In some cases, investment codes are used to fill in the gaps left by rather underdeveloped business related laws. This is particularly so in countries that have only recently adopted a market economy. Thus, for example, a recent review of the investment law of one such country in Eastern Europe showed that many areas should really be covered by company law as well as other legislation such as labour, social security and industrial property laws. In a similar country in the same region, the Programme on Transnational Corporations continued to execute a project initiated in 1992 which includes the preparation of such legislation. That has forestalled the otherwise likely inclination to use an investment code as the only legislative reform alternative.

12. An interesting issue highlighted by a request of technical assistance from one Pacific island country is the question of what importance should be attached to the adoption of an investment code. That particular country actually had little difficulty in attracting investment. But there were some bottlenecks which the Government thought it should deal with, perhaps through the adoption of an investment code. Before embarking on such a course, the Government officials requested advice on whether an investment code was necessarily the best tool for that purpose.

13. The Programme advised that country that an investment code could be a vital policy tool for developing countries seeking to attract foreign investment. It was pointed out that the international business community still seemed overly cautious about investing in developing countries unless the government position on investors' basic requirements was clearly spelt out. An investment code formulated in appropriate terms could be used for that purpose. Nevertheless, it was emphasized that the potential influence of an investment code was limited because its effect was always subsidiary to that of other fundamental factors which were needed to provide an optimal climate for all investment. Among such fundamental factors, some of the most important are (a) local attitudes to private business in general, (b) predictability of conditions, lack of

arbitrariness and freedom from burdensome regulation, and (c) appropriate macroeconomic conditions, including the freedom to transfer profit and repatriate capital.

14. The requests for assistance in formulating and drafting policy statements on foreign investment are indicative of the importance now attached to giving an image of positive local attitudes. Government attitudes to private business are indivisible from the climate for foreign investment. Attitudes throughout government seem to depend very much on the attitudes communicated by the leadership. It is important, therefore, that the leadership come out with a clear position on its attitude to foreign investment. Often this can be achieved through the publication of an official policy statement on foreign investment, which can be much more elaborate than a code. One East African country asked for assistance in drafting such a statement last year.

15. In reviewing a recently adopted investment code of one north-east African country, the Programme on Transnational Corporations noted the element of burdensome regulation and excessive intrusion in business arrangements, albeit with the good intention of "assisting the investor". While, in many respects, the code actually captured the salient features of a liberal investment regime, it was noted that the procedures stipulated for the formation of joint ventures were highly regulatory. For example, the legislation required all joint venture agreements to follow a model joint venture agreement prepared by the Government. The intention was to assist local investors not well versed in the intricacies of international joint venture arrangements, but the result was effectively a blanket limitation on various options otherwise available to private investors.

16. The Programme on Transnational Corporations pointed out to the Government that in any market economy there was need to regulate private business in the public interest regarding such matters as those concerning, for example, public health, safety, the environment, rights to exploit natural resources, and payment of taxes. But it was also emphasized that in formulating a private sector policy (including the foreign investment role) there had to be a clear philosophy as to the scope of public interest regulation. In the first place, business regulation that goes beyond protection of the general public interest to protecting and promoting particular private interests - whether regions, industries, groups, sectors - may create economic distortions that are counter-productive to the economy as a whole. In the second place, over-regulation sometimes leads to excessive intrusion in business arrangements as in this particular case. On the advice of the Programme, the Government has now prepared a draft investment code which eliminates the excessive regulation.

17. In two recent cases (one concerning a former Soviet republic and the other an African country) extensive advice was asked on the general taxation law and tax system. As more countries take the line that soundly managed macroeconomic conditions may be more important to foreign investors than the mere creation of economic enclaves for such investors, more requests in this area are likely. While available resources do not often allow a comprehensive review of all relevant issues, the ultimate advice provided to Governments is always premised on the basis that a foreign investment policy can only be attractive if accompanied by economic conditions under which investors see an opportunity for making profit and the ability to transfer that profit. That, in effect, means creating the right macroeconomic conditions.

B. Being competitive at the country level

18. The world investment scene is highly competitive and many countries are striving to improve economic and business conditions. Beside taking account of the kind of fundamental measures mentioned above, any developing country that wishes to attract foreign investment now has to consider its investment-related policies relative to policies of other countries.

19. Adopting an open policy system with "national treatment" for foreign investors seems to create a specially strong signal for attracting foreign investment, and the Programme on Transnational Corporations has recommended that kind of policy for a number of countries. Another African country adopted that recommendation in 1993. Its foreign investment policy establishes no procedure for scrutiny and approval of foreign investments but, rather, an open system under which foreign investors are allowed in any business activity not prohibited by law as long as they operate on the terms and conditions which would apply to a similar business carried on by a citizen. 1/

20. Aside from the extent of openness, the fiscal regime is a vital factor in achieving competitiveness. Many countries offer fiscal incentives to encourage foreign investment. These typically take the form of income tax holidays, exemption from customs duties and sales taxes, lower expatriate personnel taxation and so on. To the extent such incentives induce new investment it is argued that they do not reduce the tax inflow to the national budget. However, extensive research has concluded that fiscal incentives may actually have an impact on investment decisions only in particular industries. Generally speaking, the experience of the Programme on Transnational Corporations has been that they are not among the most important factors which influence foreign investment decisions.

21. In the review of a draft investment code of an Eastern European country that only recently opened its economy and is trying to attract foreign investors, it was noted that the code followed the traditional approach of trying to attract foreign investment by means of fiscal concessions, such as free import and customs duties privileges and tax exemptions. The Programme on Transnational Corporations pointed out that foreign investment in today's world was attracted (assuming market profitability) by investment security, capital and dividend convertibility and repatriation assurances, a legal environment that protects technology and industrial property rights and, if possible, an environment of free enterprise open for competition on an equal standing with the domestic investors.

22. It was also emphasized that incentives for foreigners, not available for domestic investors as in this case, tended to create particular problems and yet not necessarily to attract foreign investment. First, tax saved by foreign corporations in host countries may be payable in their home countries - unless the home country exempts foreign income from taxation either as a general principle for certain countries or as a result of a bilateral tax treaty with a particular country. Second, it is a poor economic principle to give incentives based on source of ownership. Third, the administration of selective incentives can be intrusive and cumbersome if the incentives have to be approved on a case-by-case basis.

23. Even where fiscal incentives are available to all investors for designated activities, there are problems to consider. First, as indicated earlier, in very many cases "incentives" are often forms of relief (granted by a "doctoring" investment code) from otherwise prohibitive taxes. Second, as a review of one North African country's investment code indicated, the effort to widen the list of industries eligible for the "incentives" often leads to the stage where a country ends up with two tax codes - one for the unlucky "old" investors and one for the "new" investors. The Programme on Transnational Corporations recommended to this Government the approach of introducing general tax arrangements which are non-distorting, workable and internationally competitive. But as was the case when the Programme very recently so advised another African country, such recommendation gives rise to two policy issues: (a) the level of effective tax rates, and (b) the extent to which specific incentives are still appropriate within a regime where taxes on business are moderate. On the question of the level of effective taxes the Programme in this particular case recommended that the government consider a distinctively low and attractive regime for business-related taxes with more substantial taxes on consumption as well as some additional form of progressive tax or royalty for extractive industries. The approach of imposing moderate taxes on business permits any specific incentives to be more closely targeted and is therefore less likely to create significant economic distortions. While emphasizing that there is no settled view internationally of the most appropriate incentives, the Programme has on the whole recommended to Governments striving to be competitive on a global basis to adopt policies which can be described as "low taxes not high concessions".

24. Availability of foreign exchange is a key concern of foreign investors and their lenders. The ability to transfer profits has already been mentioned among the fundamental factors needed to create an optimal investment climate. Thus, more and more developing countries are offering guarantees to foreign investors that foreign currency will be available - at least for debt service, profit remittance and capital repatriation. For export projects which generate foreign exchange these guarantees can extend to a waiver of the need to surrender foreign currency. In the latter case the investor only converts to local currency what is needed to pay local costs and taxes.

25. For those countries keen to create a competitive edge, the Programme has encouraged them to move beyond the provision of special exchange control arrangements for selected investors towards the adoption of more generally liberal foreign exchange control regimes. In one case last year, the Programme suggested that the Government consider having no exchange controls other than as may be required for record-keeping purposes to support tax compliance and for statistical purposes. In practical terms this would mean no compulsory surrender of foreign exchange earnings and no requirement that residents' savings be held in local currency or invested in the host country. A number of other policy considerations are involved in such a decision, but such a move would give a very powerful signal that a Government intends to achieve stable economic conditions through the necessary supporting fiscal and monetary policies. The Government was very attracted to the idea and is currently studying all the implications of putting such a system in place.

26. Providing security of title to foreign investors by virtue of acceding to various international legal instruments has become an increasingly vital factor

in assessing a country's competitiveness. As multilateral and bilateral investment-related treaties become more prevalent, there is an increasing demand by developing countries for assistance in examining the role of these treaties as well as the interaction between their investment policies and the multilateral and regional instruments governing foreign investment.

27. For example, when one Asian country was about to negotiate a bilateral investment protection treaty with a certain industrialized country, its officials sought a clearer understanding of some of the most important issues connected with such treaties such as national treatment, compensation, and the settlement of disputes. The Programme provided the requested information on the perspectives of developing and developed countries on the three issues, actual practice generally, and specific examples of agreements negotiated by selected countries.

C. Being competitive at the enterprise level

28. In November 1992, missions were sent to two Eastern European countries to design a project that could assist them to bring their science-based products and services to international markets. Only one year later, this type of project is being implemented in four countries in the same region. Two other Eastern European countries have also expressed interest. A similar project, under implementation in one Caribbean country since 1991, calls for the establishment of linkages between its bio-technology sector and pharmaceutical and bio-technology TNCs so as to sell products abroad via joint ventures or other arrangements with those TNCs.

29. The objective of this element of the Programme's work programme is to form revenue-generating linkages between very specialized science institutes (mainly enterprises in Eastern European countries) and TNCs through the establishment of business joint ventures or any other form of strategic alliances. The technical assistance strategy calls for working with both the institutes and their governments: the institutes must gather the needed resources and know-how to do business with the TNCs; and the governments must support them with policies which provide the environment to promote these types of alliances.

30. The technical assistance includes (a) a review of legislation relevant to the establishment and functioning of business relations with TNCs (that is, for example, laws for foreign investment, foreign trade, intellectual property protection); (b) a review of the structure of the science sector, covering institutional and organizational issues; (c) an assessment of the science institutes' international competitiveness from both technical and marketing perspectives; and (d) training in business related activities (i.e. strategy, organizational design, marketing and promotion, negotiation etc.).

31. In reviewing legislation, specific legal issues are, where appropriate, covered at both national and enterprise levels. For example, in the case of intellectual property protection, a review is made of the relevant national legislation (e.g. patent laws) and its implementation; and then an examination is made of the institutional arrangements of the enterprise in question which affect the handling of intellectual property (e.g. how it would affect royalty payments to the generators of intellectual property).

32. In addressing issues related to the structure of the science sector, the Programme found that, unintentionally, the form of reorganization chosen for privatization has sometimes hurt the prospects for recovery of this sector. For example, in almost all the countries, Governments have privatized high technology manufacturing facilities without keeping the previous links to the State-owned science and research and development institutes. Consequently, the science institute loses a key source of income (royalty payments by the manufacturing facility) needed to continue its research. The manufacturing facility also loses access to research needed to upgrade its products. Thus, the future of both the research and development institute and the manufacturing facility are jeopardized.

33. To solve this problem, advice was provided on how to restructure the science sector by the establishment of licensing arrangements between private high technology companies and the public research and development institutes. The advice was based on the experiences of a number of developed countries, where such arrangements are made between government or university funded research and development institutions, on the one hand, and private high technology companies, on the other. The Programme also provided information to the science institutes on potential partners in the developed countries and facilitated contact between them. Some projects (mostly still small-scale) have as a result been set up between foreign companies and the local institutes.

34. Activities in Eastern Europe in the promotion of competitiveness at the enterprise level may have some lessons for many developing countries, a number of which have some intellectual capital with potential to develop high technology, high-profit productive operations. In fact, in many cases, government or university funded research has produced good quality laboratories which conduct innovative research. But, many developing country governments or companies, in part overwhelmed by the complexity of effective intellectual property management and the fierce competition in high technology industries in international markets, do not enter these markets. Successful programmes in Eastern Europe may give an impetus to such Governments to also try. The process is complex and difficult but the potential gains are enormous. The Programme has been developing the capacity to provide the assistance needed by those developing countries possessing some intellectual property and innovative capabilities.

D. Creating special channels for foreign investment

1. Free Economic Zones

35. Free Economic Zones (FEZ) 2/ continue to attract the interest of many governments. The developments in the former centrally planned economies, where FEZs are considered a means to implement market economy mechanisms, have also given a new impetus to the proliferation of FEZs. However, given that the liberalized policy climate has also been coupled with public budgetary constraints, there is increased interest in FEZs in which private initiatives provide services usually provided by the public sector. For example, in the assistance provided to three countries in Northern Africa as well as the government of a South American country, privatization of the infrastructure, or at least part of it, was contemplated or was being negotiated.

36. Among the main issues for which advice was sought is the choice between adopting a general regime applying equally to any export-oriented enterprise whatever its location within the national territory may be or a regime that restricts benefits to only enterprises operating in specified enclaves. The choice depends on many factors. Among them are local circumstances such as the economic structure of the country, the level of development of the infrastructure (notably the communications network), the natural resources potential of the different regions of the country, etc. Thus for example, in advising the government of one of the three North African countries to complement its recent legislation on investment with a law establishing an "export-processing zone", the Programme's advice was partly based on considerations of the physical features of the country, the poor situation of its infrastructures and the necessity to concentrate investments in specific areas in order to reach significant dimension and to maximize their impact on the region concerned.

37. Another main issue on which advice is often sought concerns the policy on incentives. The effectiveness of any incentive policy depends not only on the competitive nature of the incentive programmes adopted elsewhere, but often more so on the scale of the shortcomings to be offset by operating in a FEZ. The issue Governments face is to ensure that incentives offered are sufficient to attract the required amount and type of investment, but are not so high as to exceed in value the perceived shortcomings. The Programme's provision of information on the range and type of incentives available in a similar environment in other countries thus provides useful guidelines.

38. The existence of standard factory buildings is an important factor in attracting foreign investors to FEZs, since they allow them to start production quickly and eliminate the need for them to erect a factory in unfamiliar surroundings. The question for some Governments is whether to build and then lease or sell the buildings, or whether to lease land sites on which an investor could erect its own buildings. Again, several factors determine the choice including, among others, the legal regime governing land tenure and the available contracting facilities. In one of last year's cases, the Programme advised the Government faced with the issue to build and lease at modest rental rates so as to facilitate the commencement of activities, with the possibility that these rates could be gradually increased later on, depending on the investment climate. In other cases, the advice has been to let the investors erect their own buildings.

39. The formulation of the contractual and regulatory framework is a crucial factor. The Programme responded to the request made by the government of an African country to evaluate a proposal by a TNC to finance, equip and manage a major export-processing zone. The proposed zone was to be located in the most developed area of the country and the zone territory would cover a large part of the country. A draft law was annexed to the proposal providing for the organization and regulation of the zone and the monitoring of all activities within the zone boundaries. The entrepreneur was supposed to be in charge of the enforcement of the zone regulations.

40. The Programme studied the offer and made an assessment of the respective rights and obligations of both parties, according to the provision of the draft legal documents submitted. The conclusion was that they were not only

enormously unbalanced, but that the whole arrangement, if implemented, would seriously impinge on State sovereignty. In any case, the pre-feasibility study presented was not documented well enough and was deficient in many respects. The Programme suggested that the arrangement be negotiated on a quite different basis and assisted the government in the whole process.

41. In the transformation of a port site into a privatized export-processing zone, the Government of another developing country was confronted with the choice of the contractual arrangement to be concluded with the private sector. Diverse types of arrangements, involving various degrees of private sector involvement, were considered. A major consideration was that, as a matter of policy, the government was determined to limit the involvement of the public sector in economic life. Mainly for that reason, a concession form of arrangement was chosen. In the case under review, its merits were several. The private enterprise had the responsibility to build up installations and facilities, to make general improvements and to provide working capital. In addition, it was to run the service at its own risk, assume the management, maintain and improve facilities and buy all necessary equipment and material. At the end of the concession, the facilities would nevertheless become the property of the State. The main advantage of the concession contract, as perceived in this particular case, was to shield the State from financial obligations while obtaining efficient service.

42. Governments seek advice on whether there should be free access of the products obtained in a FEZ to the domestic market. In most cases, access to the host country's domestic market for FEZ's products is strictly regulated and, often, these products are simply barred from domestic markets, but this depends on the particular circumstances of each country. In advising the government of a country with an economy in transition, the Programme recommended that by-products could be sold on the domestic market, but only to the equivalent of 20 per cent of total output. One of the reasons for imposing a limit was that the country's taxation and accounting systems were not yet advanced enough to determine what duties, if any, should be payable on the products. In another country, where the national accounting system was much more advanced, the Programme suggested that products manufactured in a FEZ could be sold on the domestic market, provided that customs duties were paid on them, after deduction of the amount of the value added locally. Such provisions could encourage linkage effects between enterprises operating in the FEZ and domestic enterprises.

43. Generally speaking, there is no single model of FEZs which is ideal universally. In practice, each FEZ has to be adapted for the particular circumstances of a country and place. Such adaptation needs to reconcile the perceived interests of both the public and the private sectors in creating and operating in the FEZ. Since such a balance is not static, the success of a FEZ also depends upon how the concerned country continuously adapts to a changing environment both at home and abroad.

2. Build-operate-transfer arrangements for infrastructure

44. Build-operate-transfer (BOT) is a means whereby private investment and management can be invited to build and operate public facilities for eventual

turnover to a government once the investment is recovered. There is a variety of related arrangements such as, for example, "build-lease-transfer" (BLT) where an investor constructs a facility for long-term lease to government and eventual transfer.

45. The attraction for governments of the BOT family of arrangements is the opportunity to tap new sources of finance and skills and to have key public facilities put in place with less exposure to the construction, operating, market and financial risks of being the developer and operator. Governments stand to eventually take over mature, proven facilities which are free of debt.

46. The public sector is either a customer or regulator of the service provided by a BOT facility. The developer's ability to negotiate attractive market arrangements, such as price levels, is crucial for the profitability and bankability of the project. These are matters for negotiation. In one case the Government of an Asian country requested a review of the terms of a BOT contract for a thermal power station that would supply the national grid. The developer's responsibility was to finance and construct the station. It would then operate the station for 25 years, during which time the national power authority would purchase electricity at an agreed price. The developer had been able to reduce its market risk substantially by obliging the power authority to supply fuel (the major operating cost) and to take electricity at a price sufficient to recover capital and operating cost. Arguably the power authority could absorb these risks given its position as a monopoly supplier but the review concluded that there was a case for greater flexibility in the fee structure. The review also recommended improvements in a large number of contractual provisions to clarify and tighten the developer's obligations.

47. In another case the Government requested a review of a BLT contract for a mass transit system. A private consortium was to build and maintain the system and lease it to a public authority for an extended period. In this case the public authority was to operate the system and charge passengers. The public authority was to pay a fixed lease rental based on recovery of expected investment cost and not directly linked to the revenue generated by the system. Two connected issues arose. First, it was not clear that the public authority had made adequate projections of passenger demand on which to base a long-term commitment. Secondly, the developer was taking none of the market risk since its lease rentals were independent of the traffic revenue generated. Moreover the lease rentals were to be denominated in foreign currency while passengers paid in local currency. Thus the public authority also accepted the exchange rate risk.

48. In such a case where government was underwriting the revenue stream it was questioned whether the proposal on balance was superior to the traditional method of providing public facilities - in which a government borrows directly to finance a contractor to build a facility. It was recommended that the Government review these issues.

49. This case raises the more general point that, in the provision of public facilities and services, governments have choices ranging from outright privatization to traditional forms of public provision. BOT is an intermediate approach that combines elements of both. Each BOT project has to be judged on its merits as to whether it represents a sensible allocation of risks among the

parties and whether the costs being charged for the facility or service are commensurate with the risks being assumed by the developer.

50. While many of the key business issues may be resolved differently for each project, a wide range of technical matters will be common to all projects. At the request of the Government concerned in the cases reviewed above the Programme drafted a model BOT contract. This will facilitate the application of clear and consistent contractual language in the documentation of all future BOT projects in the country.

III. SECTORAL POLICY REFORM: NATURAL RESOURCES DEVELOPMENT

A. General trends

51. The year 1993 witnessed a significant reappraisal of terms in petroleum investments. The opening of new opportunities for petroleum exploration and development in the Commonwealth of Independent States (CIS) of the former Soviet Union and in Latin America was more than likely the trigger to the reappraisal process. The scene is fast moving and part of the change is driven by changing perceptions of major investors as they become more familiar with new environments and the scope of opportunities now on offer. When, in 1991, the Programme on Transnational Corporations advised on certain petroleum contracts in an Eastern European country that had long been closed to foreign investment, investors were eager to offer fiscal terms attractive to the Government. In 1994, with disappointing exploration results, investors are claiming that these same terms are onerous and that the cost of exploration operations is excessive.

52. These same trends are not so evident in hard rock mineral investment. Relatively few mineral investment contracts have been signed in the CIS countries and other former centrally planned economies. These are very recent, almost entirely restricted to gold mining and the terms achieved are not widely disseminated. Mining investors are approaching each deal in an unformed policy environment with the sense that early entrants will be able to conclude attractive deals. In turn these former socialist countries are anxious to get "on the map" and are struggling to set a firm policy background, much less to codify terms. The Government of one former socialist country negotiated the terms of a mineral investment without external advice and requested that the Programme review the agreement. The review identified a number of features unlikely to be found in the much more settled policy regimes in the established market economies.

53. In the countries with established market economies, additional work was undertaken or completed on codification of mineral investment terms and conditions. This parallels the increasing sophistication of policy makers who are sufficiently confident in their knowledge of what constitute attractive and equitable terms to be prepared to codify these terms. There is considerable convergence of opinion among policy makers and their advisers from the international agencies about appropriate terms. One area that remains unsettled is the role of additional profits tax mechanisms to inject progressivity into the mineral fiscal regimes.

54. The most significant "new" policy area is the regulation of the environmental impact on mining. Certain countries are seeking a much more detailed environmental regulation regime. It has long been the case in the Programme's work on natural resource regimes that comprehensive environmental impact statements and plans to mitigate harmful environmental impacts were a statutory or contractual requirement before a development license was issued. The statements and plans were then judged on their merits. It is increasingly the case that general environmental law and/or environmental regulations to mining and petroleum laws are being prepared which elaborate the benchmarks. In principle this should be a development welcomed by investors as they will have greater certainty from the very beginning of exploration of the kinds of standards they will be required to meet. A manual was prepared in 1993 to assist policy makers in formulating appropriate environmental regimes for mining. 3/

B. Policy and contract review

55. During 1993 a comprehensive review was undertaken of the petroleum contract terms for a South American country. The terms had been in place for 20 years and had been very successful. This country had noted a fall off in exploration activity in the past few years and was also concerned about new opportunities in the former centrally planned economies. It wished to ascertain that terms offered were still competitive in the world marketplace. At the same time some special issues needed reconsideration. For example the Government wished to review fiscal terms for highly profitable giant discoveries and methods of attracting more investment to more marginal situations such as frontier areas 4/ and areas perceived as gas-prone or likely to yield heavy oil.

56. A computer-aided simulation was performed to compare the country's fiscal terms with those of 11 other oil-producing nations on a range of assumptions of recoverable reserves, oil price and development cost. It was concluded the country's fiscal regime tended to be regressive, that is, discoveries of marginal viability tended to be overtaxed while it was arguable that giant fields were undertaxed. Recommendations were made to introduce more flexibility to the fiscal structure so that the tax take would be more responsive to underlying project profitability and to the investment returns likely to be required by investors before committing risk capital.

57. A large body of international practice was surveyed and reviewed on methods of encouraging investment in frontier areas. The survey identified fiscal devices designed to reduce the impact of front-end exploration costs or to speed investment recovery and a variety of non-fiscal concessions. The latter inducements included allocating larger exploration areas or relaxing relinquishment requirements, i.e. allowing the investor longer periods in which to explore, develop or produce, and also included proposals for reduced exploration programmes as a license condition. In addition, it was recommended that the Government consider an incentive in the form of a combination of accelerated depreciation and an investment allowance so as to provide a rapid investment recovery.

58. Another area that required fine tuning was the treatment of non-associated natural gas. Unlike the case of oil, which is readily saleable on the

international market, gas development requires the prior identification of a specific market. Development of that market may well require, in turn, major investment (e.g in the case where the gas is to be the feedstock of a petrochemical plant) and possibly further heavy investment in transport and transmission systems. Often the gas may only have a domestic market and problems of establishing pricing occur. The Programme's review found that the obligations to develop gas discoveries were insufficiently differentiated from those for oil, bearing in mind the commercialization and marketing problems entailed in successful gas investment. Recommendations were made whose effect is to give the investor greater leeway to explore commercialization possibilities between making a discovery and being obliged to relinquish discoveries for failure to develop same.

59. The Government of another South American country requested a review of the terms it had just achieved for an important new mining venture. The country had the reputation over the years of having a very difficult climate for foreign investment and had expropriated mining ventures in the 1970s. Apart from the poor investment climate the project itself presented marginal ore grades. It was thus a remarkable achievement to attract foreign investment to the mine. Nevertheless, the Government wished to know if there were grounds for adjusting the arrangements for the project and what consequent revisions in its laws and model contract might be warranted. The Government was interested in receiving advice on both the fiscal structure and the regulatory issues.

60. Concerning the fiscal structure the review found that tax elements were reasonable and competitive for projects of the kind. However, there were aspects of the business arrangements which led to a notably strong tilt of revenue sharing towards the investors. In particular the project was financed with a high level of debt and debt-like instruments, mostly provided by the principal shareholder. This reduced both tax receipts and the present value of expected dividends from the Government's minority equity share.

61. On balance it was concluded that these arrangements did not lead to an unduly high return to the investors at the expense of government owing to the marginal nature of the underlying economics of the project. Thus it was recommended that the project arrangements should stand. Nevertheless, the Programme advised the Government that some useful lessons could be learned for new projects and thus appropriate changes in the model contract should be made.

62. Concerning regulatory issues the review found that the Government's rights to terminate the agreement for just cause, which as a threat for compliance is essential for effective regulation, were severely limited, while the company's powers to suspend or terminate operations were unusually wide. For example the Government gave up the right to terminate the agreement (in favour of a relatively small financial penalty) if the company through wilful misconduct or gross negligence submitted false information to the Government which resulted in the Government incurring financial loss. However, the company could, in addition to its rights under force majeure, suspend operations for any business reasons the company deemed valid. And resumption of operation tests gave the Government little opportunity of speeding up the process.

63. Previous reports on technical cooperation in the minerals sector highlighted issues involved in the question of whether governments are wise to

seek equity in minerals ventures. It has generally been concluded that adequate public interest controls can be achieved by government in its capacity as regulator. Ownership, even majority ownership, can actually be a weaker instrument. Also it has generally been concluded that well-designed tax arrangements, supported by good tax administration and monitoring systems, can achieve an adequate revenue share to government without the expense and risks of ownership participation. During 1993 some requests were received that continued to raise these issues.

64. The Government of a South American country requested a review of a mining venture in which the State had taken 50 per cent interest in partnership with a major international mining company. The Programme reviewed the financial terms agreed by the parties. It should be noted that in theory it is possible to devise alternative tax or ownership participation structures that yield equivalent revenues for government. However, the review conducted for this government illustrates the fact that satisfactory results can be difficult to achieve in practice through the ownership route.

65. In the case reviewed the government owned 100 per cent of a mining operation. It decided to privatize the venture but agreed to waive its rights to royalty and profits tax in return for taking a 50 per cent participating share in the project. Two problems were apparent. First, the 50 per cent share had been agreed prior to the conduct of the feasibility study and thus government had a poor understanding of the project's likely profitability. It had insufficient information upon which to judge the value of the 50 per cent participation that the foreign investor was getting. Secondly, the Government appeared to have counted loans to the project (albeit provided by the foreign partner) as part of the equity contribution of the foreign partner. This inflated the foreign partner's apparent contribution.

66. Furthermore, the Government had accepted business risks including a full share of project loan guarantees and cash support obligations corresponding to its share of ownership. The acceptance of such business risks does not occur when a government seeks revenue participation through taxation. In this case, if the government could not reduce its exposure to these risks in the negotiations it should have at least sought to calculate its required profit participation to compensate for them.

67. The Government concerned is reviewing its policy in relation to mandatory State participation. The project review provided some instructive examples of the pitfalls of the ownership route to mineral revenue sharing as an alternative to taxation. In the established market economies this has of course been a lively issue for some time. However, it now appears likely to become quite an important matter in the former socialist economies as State instrumentalities seek to preserve an important role in their emerging market economies.

68. From the preceding discussion it will be seen that the policy nature of technical cooperation has shifted somewhat towards "fine tuning" issues. 5/ This reflects greater awareness by the governments of developing countries with established market economies of the key requirements in mineral arrangements needed to satisfy issues in the public interest and the requirements of investors. 6/ However, governments are less sure footed when confronted with purely business arrangements. Furthermore, considerable improvement in capacity

is needed in the ability of governments adequately to monitor and audit the key operations and transactions of the investors.

C. Project oversight and audit

69. The lack of ability to monitor and audit natural resource operations can lead to government revenues falling well below expectations. This can be a serious revenue (and counterpart foreign exchange) loss for economies dependent on natural resources. Requests from governments of established market economies for technical cooperation programmes to strengthen institutional capacity in this regard may increase. The Government of a country in the Asia-Pacific region has made a preliminary request for assistance in conducting an audit of the expenditures incurred in the exploration and development phases of a major petroleum project. Indeed, such requests may in time become as prominent as the more traditional requests for policy support.

70. In an African country where the Programme advised in the renegotiation of arrangements for a mineral venture it was clearly important that mineral shipments be monitored to ensure genuine reporting of sales revenues. Adequate inspection powers had long existed in customs law but there was a lack of technical capacity to undertake the inspections. Unfortunately, a lack of funding prevented the implementation of a training programme that had been designed immediately following the negotiations to strengthen the government's ability to monitor export shipments.

71. In another case, the government of a Caribbean country requested the Programme's assistance (as part of a team with other advisers) to consider whether the income tax law as applied to the country's major mineral investments was working as intended by the Government. The review found weaknesses in the control of certain business arrangements, especially undue debt gearing of the kind previously discussed. More significantly, field audit by the taxation authority was several years behind owing to a lack of trained audit specialists. The most recent field audit had revealed a number of problems including excessive management fees paid to affiliates and other very aggressive claims for tax expenses. This was of major concern to the Government as mineral revenues account for a significant proportion of the national budget. Moreover, the Government had only recently moved to place greater reliance on income tax as part of the fiscal package for the ventures and rather less on ad valorem charges which were easier to collect. This change, by introducing greater flexibility into the fiscal regime, was designed to encourage expanded investment.

72. Apart from measures needed to strengthen the tax authority's capacity to conduct field audits the review found that a number of supporting amendments to the income tax law would be beneficial, including improvements in the system for provisional tax payments, provision for interest and penalties on arrears, introduction of new tax forms to improve disclosure and amendments to enhance the tax authority's access to documents and records. All of these measures would be commonplace in the principal domiciles of the investors and could, indeed, be modelled on arrangements in these countries.

D. Special considerations in formerly central planned economies

73. The governments of the former centrally planned economies are now entering natural resource investment arrangements with foreign investors. In 1993, two requests were received to review draft agreements. It appears to be the case that these governments favour a high level of State ownership. For example, the Government of one such country in Asia requested that a review be undertaken of a gold project in which a State instrumentality had negotiated a draft agreement providing for its participation in the venture. The State had negotiated a paying participation of 51 per cent. However, it had left itself open to the prospect of having to guarantee 100 per cent of the project loans. Moreover, the debt-to-equity gearing of the project was not defined. These weaknesses left the Government responsible for shouldering a much greater share of the project's financial exposure than its profit participation. The Government was also unprotected in the agreement from transfer pricing.

74. One issue of particular pertinence to the former centrally planned economies was highlighted in some requests received. These countries in general have devoted considerable effort and expense to geological survey and other exploration work, more so than is typical of the developing market economies. In some cases reviewed, the State appeared to have received no credit for this work of a kind, which might normally apply in "farm-in" arrangements between private parties. Assistance may be needed in valuing and negotiating these credits.

75. One possible approach to obtaining value for prior exploration effort was taken by the Government of an Eastern European country. It entered into a draft agreement with a specialized foreign consulting firm in which all the country's accumulated petroleum seismic data would be reprocessed by the company and then sold to interested oil explorers. Sales revenue would be shared with the Government. This had the makings of a sensible arrangement. However, the partner sought not only control over release of the data but also an undertaking that the Government would prevent oil explorers from obtaining permits unless the data package was purchased. While this might maximize the price of existing data it could well restrict exploration and not be in the national interest of opening the country to private investment in the sector. The Government was advised to attempt to reformulate the arrangement.

76. In addition to the financial issues it appears that in many of the former centrally planned economies, governments have not moved to formulate in any systematic way the terms and conditions applicable to exploration. There is a natural desire to encourage private investment quickly, but terms agreed to with the early entrants might overly restrict the acreage available to later, and perhaps more substantial, foreign investors. In one case reviewed, the first foreign entrant in the minerals sector had, in partnership with a State instrumentality, been allocated a very large exploration area for a 20-year term with no work programme, no minimum expenditure obligations and no relinquishment provisions.

77. Many of these countries appear most uncertain about appropriate terms to offer private investors in both the minerals and petroleum industries. In cases reviewed this is reflected in the conclusion of arrangements which may not fully

be in the national interest, but in other cases it is reflected in the absence of any functioning deals with major investors at all - or in continual changes in arrangements which foreign investors had thought were settled.

IV. HUMAN RESOURCES DEVELOPMENT

78. The Programme's training now concentrates on building national capacity not only to deal on an equal par with foreign investors in, for example, negotiating investment agreements, but also to be able to create and manage the policy and operating climate in which international business can thrive. Many developing and formerly centrally planned countries have, in their efforts to streamline their investment environment, set up one-stop investment boards/centres that are to function as the national core institution for the promotion and in some cases the screening, approval and monitoring of foreign investments. In a Caribbean country, an African country and an East European country, among others, the Programme provided training to investment board officials on aspects related to promoting their countries to potential foreign investors and on aspects related to administering and servicing operating investments.

79. The year 1993 witnessed the usual large numbers of requests for training in the area of natural resources development, particularly for the petroleum sector. Rich in these resources, many of the newly-open door countries of Eastern Europe, Asia and Africa have been concluding mining and petroleum agreements with foreign companies and are eager to compare their regime with terms offered elsewhere. Training has focused on the legal and economic aspects of individual natural resource industries and provided comparisons of the main contractual forms and contract terms used in recent negotiations worldwide. Workshops now increasingly include use of computer models developed by the Programme to perform financial and economic analyses and also demonstrate the effect of different variables on the tax and royalty rates in a real negotiations situation.

80. Some countries with quite extensive petroleum and mineral exploration activity have relied almost exclusively on foreign consultants to negotiate the terms of granting exploration and exploitation rights. While outside expertise is always useful to complement local capacity, there has to be a conscious policy of nurturing domestic expertise. In a new approach in training in the natural resource sector, the Programme, with financial support from the United Nations Development Programme (UNDP), provided a country in the Asia-Pacific region with a resident legal adviser with a specific purpose of hands-on training in negotiations for government lawyers. Attached to the Office of the State Solicitor for three years, the adviser trained and advised the department's lawyers in negotiating natural resource contracts with transnational corporations. As a result, by the end of 1993, government lawyers were fully involved in negotiating natural resource contracts with foreign investors. Previously they had only relied on outside consultants. The work of the legal adviser is continuing.

81. Tourism development continues to be a popular subject among requests for training, with many developing countries and formerly centrally planned economies actively seeking tourism to boost their foreign exchange earnings. In the last year, the Programme focused on helping governments prepare strategic

development plans for their tourism sectors and on providing training to improve related institutional structures and skills. The Programme also organized study tours for local tourism officials to enable them to study the running of major tourist resorts in other developing countries.

82. In 1993, a number of requests for training were received on issues of international finance, banking and insurance. With over a half of all global foreign direct investment now flowing into service industries, state-of-the-art skills are being called for in the supervision and management of cross-border financial flows, international debt management, and the negotiation of finance and related agreements. In addition, many host countries are loosening earlier restrictions on foreign investor access to local financing. And in undertaking privatization, governments are seeking to better mobilize and draw on the pool of domestic private savings. Capital markets development is an area to which most governments, in both developed and developing countries, are beginning to pay close attention. The Programme conducted in 1993 workshops in Eastern Europe, the Caribbean and Africa, on the management and supervision of financial institutions, and on the setting up and operation of national stock exchanges.

83. Greater cooperation with international business was a theme of some of the Programme's training programmes in 1993. In many workshops or seminars representatives of TNCs were accorded a major role so as to give host government and the local private sector participants the opportunity to hear directly from potential foreign investors on their motivations and constraints vis-à-vis the host country. For instance, a TNC - the Fiat car company - was among the key sponsors of a major public seminar on foreign direct investment in a Latin American country. At another international round table in an Asian country, senior executives from 40 of the world's largest TNCs met with senior government policy makers to review the impact of the country's current economic reform process and to suggest further improvements in the foreign direct investment environment.

84. In another innovation, TNCs are also providing their expertise and support to the Programme's programmes for developing local managerial talent by providing in-house training. Under a multi-stage training programme, 30 national managers from an Asian country were placed in the overseas offices of major TNCs in 1993 for up to a year of hands-on training in international business. Participating TNCs not only provide supervision and training but a monthly stipend as well.

85. Public education on foreign direct investment issues was another focus of training in 1993. A number of seminars and discussion forums intended for large audiences were organized, aiming to enhance popular understanding of foreign direct investment, its developmental potential, and the relevant policy issues. Sustained public information can help generate the public support necessary to sustain the momentum of foreign direct investment liberalization and reform. In a Latin American country, the Programme was among the sponsors of an international seminar on foreign direct investment flows attended by 250 members of the local public and private sectors, trade unions, and universities. Also in the same country, a global entrepreneurship fair was attended by over 250 entrepreneurs from eight countries in Latin America and Africa.

86. Finally, the Programme designed and executes a programme called EMPRETEC, which promotes the creation and growth of entrepreneurship. EMPRETEC provides a tightly organized system to select entrepreneurs, train them and offer them a business support network. This network is a self-sustaining and active coalition of public officials, entrepreneurs, corporate managers, bankers and executives of TNCs. EMPRETEC offers these entrepreneurs the skills, technology, opportunities, training and information necessary to help them realize their objectives, expand their activities and establish productive, stable linkages with transnational corporations. In 1993 EMPRETEC was active in three countries in Africa and five in Latin America. A separate report to the Commission has been prepared on the EMPRETEC programme (see E/C.10/1994/9).

V. CONCLUSIONS

87. The advisory work of the Programme on Transnational Corporations has had a significant impact on recipient countries. Examples can be given of previous technical assistance that bore fruit during 1993. A country in the Asia-Pacific region that commenced oil production and export in the latter part of 1993 benefited from long-term technical assistance starting at the exploration stage right up to the production stage. With the development of oil production and, in addition, mineral investment on which the Programme also advised, this country has been one of the fastest growing economies in the world in recent years. A country in Africa which benefited from the Programme's advice on minerals agreements at the beginning of the 1990s is now receiving substantially increased fiscal revenues within a framework which has sustained increased investment. Also the Programme's independent advice given in 1991 at the request of the government of a South American country was an element in resolving major contractual disputes which were holding up all new investment. This country, which is highly prospective and has implemented a number of general reforms, has seen a revival of foreign investment to an extent unimaginable only two years ago.

88. Where the Programme provides assistance in formulating and/or revising a country's investment legislation or in providing an advisory report, the legislative draft or report that is submitted to a government is accompanied by an evaluation questionnaire to gauge the effectiveness or usefulness of the advice. In addition to the comments then received, a crucial part of the feedback is whether the draft legislation is enacted into law or the advice in a report is implemented. Even in those cases, it may remain difficult to judge the impact of this particular type of assistance amidst all the other factors that influence foreign investment flows. Nevertheless, the Programme often receives feedback from governments attributing increased investor interest to changes in the legislative framework or to policies implemented on recommendation of the Programme.

89. With regard to assistance related to helping host countries in the structuring and negotiation of particular transactions in specific sectors and industries, the impact is often more visible, but how immediate it is felt differs from case to case. For example, in the natural resources sector, the Programme's assistance to a West African country in the renegotiation of certain contracts resulted in the government's tax revenue increasing by millions of dollars in a matter of months. Increased government revenue is perhaps the most

visible impact in these types of transactions. On the other hand, in the case of new projects for exploration, there is frequently a significant lag between the provision of the Programme's assistance and the start of actual production. For example, as mentioned above, petroleum production in an Asian Pacific country commenced only in 1993, even though the technical assistance related to the same project started in the mid-1980s. Not all technical assistance work carried out in 1993 can therefore be expected to have an immediate impact, at least in terms of increased government revenue. But of course, while increased revenues may not be realized in the short term, the goal of increased investment can be immediately achieved through these transactions. As is noted in the Programme's Technical Cooperation Brochure, by 1991 its assistance is estimated to have affected over 700 projects with a value of about $25 billion worth of foreign investment.

90. In the area of training and human resource development, impact is gauged in terms of local capability. In the report to the Commission in 1991 on experiences gained in training and the development of human resources (see E/C.10/1991/13), it was indicated that since 1976 the Programme had organized 261 training workshops, seminars and round tables and 35 fellowships and study tours. Over 7,000 medium and high level officials were said to have benefited from the workshops and over 150 senior officials from the fellowships and study tours. That report included a summary of the government and private sector participants' responses to questionnaires that are issued at the end of each workshop and, also, results of follow-up questionnaires relating to workshops that took place a few years earlier. The questionnaire results in both cases seemed to indicate a very positive impact. A preliminary review of the questionnaire results of the workshops held in 1993 suggests that the capacity building effect will be similarly favourable.

91. The EMPRETEC programme has had a significant impact in the form of entrepreneurs trained, business generated, jobs created, export growth and technology transfer. More than 25,000 entrepreneurs applied in the past six years for participation in the entrepreneurship workshops. After careful selection, 2,257 (of whom 25 per cent are women) were trained and received technical assistance as of January 1994. About 80 per cent of the entrepreneurs who entered the programme already operated a business and were looking for assistance in expanding their enterprise. Of the entrepreneurs who did not have a business, over 250 started a new enterprise in such sectors as food-processing, agro-industry, textiles, plastics, chemicals, automobile parts, informatics, and bio-technology.

92. Nearly all entrepreneurs who enrolled in the programme and already had a business were able to expand or modernize their business operations after joining EMPRETEC. Statistics from the EMPRETEC programme in Uruguay show that entrepreneurs who have been in the programme for two and a half to three years, despite the difficult economic situation in Uruguay, have increased the number of employees by 18 per cent, sales volumes by 87 per cent, assets by 42 per cent and their exports as percentage of total sales by 100 per cent.

Notes

1/ Although the cornerstone of the policy is an open house, there are some exceptions and the law gives the government power to exclude foreign investors from participating in certain activities. The concern is that some very small investments might be made by foreigners in business such as small retail trading, which would otherwise be carried on by nationals who might not have many other opportunities.

2/ FEZs include export processing zones, special economic zones, Maquiladoras and other comparable institutions.

3/ "Mineral Development and Environment Protection in Developing Countries" (forthcoming publication).

4/ Frontier areas are areas with comparatively little exploration history or are certain to have high development costs, such as difficult offshore or difficult terrain areas.

5/ Indeed it can be argued that the increased attention to documenting environmental requirements is not new but also a case of fine tuning. The governments of many market economies with major mining interests have long paid careful attention to the environmental impact of mining.

6/ As documented elsewhere in this report PTC has assisted the government of one country with highly active minerals and petroleum sectors by posting a full-time legal adviser to undertake training so as to broaden this knowledge within the ministries dealing with natural resources.

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EXPERIENCE GAINED IN TECHNICAL COOPERATION ACTIVITIES RELATING TO FOREIGN DIRECT INVESTMENT AND TRANSNATIONAL CORPORATIONS

Entrepreneurship and enterprise development

Report by the UNCTAD secretariat

SUMMARY

Over 2,250 entrepreneurs have actively benefited so far from the programme on entrepreneurship development for small- and medium-scale enterprises in Africa and Latin America. Each country programme has developed a strong and dynamic national association of entrepreneurs, supported by a coalition of bankers, established local businessmen and representatives of subsidiaries of TNCs. The programme has evolved to a stage where there is active cross-border investment and alliances between entrepreneurs in each of the two regions and an emerging process of interregional networking and business links.

* E/C.10/1994/1.

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INTRODUCTION

1. In the past six years the Programme on Transnational Corporations has developed innovative projects of technical cooperation in response to increasing requests from developing and transition economy countries for assistance in opening up their economies to foreign investment, accelerating their technological progress, and developing their national capacity to form successful partnerships with foreign investors.

2. One of these projects, EMPRETEC, 1/ focuses on entrepreneurship development 2/ and on the untapped potential for extensive collaboration between transnational corporations and small- and medium-scale enterprises (SMEs) in developing and transition economy countries. Such enterprises, though small, can develop into dynamic and technologically sophisticated companies. When provided with a supportive business climate, SMEs have a proven ability to deal successfully with TNCs as suppliers, service firms, and joint venture partners. For the local entrepreneur, linking up with TNCs opens a way to new sources of revenue, credit, capital, technology transfer, development of high-skilled personnel, improved management, overseas markets and profitable partnerships. For TNCs, successful SMEs can be dependable and low-cost suppliers and contribute to a dynamic investment climate, to expanding domestic markets and to higher long-term profits.

3. While promoting the creation and growth of SMEs in developing and transition economy countries through entrepreneurship development and linkages with TNCs, EMPRETEC enhances recognition of the opportunities for mutually beneficial cooperation between TNCs and SMEs and develops a national capacity to advise and assist them in practical collaboration.

4. A review of existing enterprise development projects conducted prior to formulating EMPRETEC showed, that despite the critical importance of entrepreneurs and entrepreneurship, 3/ only India among the developing countries had a private sector development strategy or programme that included any systematic means for identifying entrepreneurial potential, for enhancing that potential, or for stimulating new sources of entrepreneurship. And there was not a single project for stimulating business linkages with TNCs. Venture capital, which is more attuned to the identification and financing of entrepreneurial potential, was until fairly recently scarcely available in most developing countries. Financing institutions typically had excellent systems for assessing collateral, mediocre systems for assessing project feasibility, and no system at all for assessing entrepreneurial acumen.

5. There were many training projects for developing and strengthening business skills such as management, accounting, marketing and inventory control, and for preparing business plans and feasibility studies, but none of them addressed the fundamental question of how to select and strengthen the entrepreneur. Moreover, most of the projects were directed to the informal sector, or to micro-enterprises but very few were specifically concerned with the small- and medium-sized enterprises.

6. EMPRETEC focuses on SMEs, companies which could eventually grow and internationalize. The target group is educated entrepreneurs capable of understanding and mastering technology. SMEs - generally defined as companies which are larger than the traditional micro- or family business, but not exceeding 200 employees - contribute to substantial job creation and expansion and have the potential of creating demand for the goods and services of micro-enterprises. Entrepreneurship is important for any kind of economic activity, but it is absolutely crucial for the SME sector.

7. This report deals with EMPRETEC, now an UNCTAD technical cooperation programme, which in the last six years has provided cost-effective assistance to more than 2,000 emerging entrepreneurs in Latin America and Africa. The report discusses EMPRETEC's structure and unique features, its impact on business development at the national and regional levels, lessons learned in the course of implementing it, its long-term sustainability, and the contribution it is making to fostering SME-TNC business linkages.

I. DIFFERENT APPROACHES TO ENTREPRENEURSHIP AND ENTERPRISE DEVELOPMENT

8. Entrepreneurship and enterprise development programmes have been found to be effective tools for improving the efficiency and productivity of businesses, particularly when focused on SMEs. These programmes lower transaction costs, exploit opportunities for efficient production that have been missed because of biases and constraints, overcome market imperfections working against SMEs, and increase the capacity of entrepreneurs to respond to market incentives. Enlarging the supply of carefully selected and trained entrepreneurs can provide the impetus needed to establish a dynamic pattern of employment generation and productive self-employment, thus contributing to a more vigorous process of industrialization.

9. While there are many entrepreneurship development programmes, most can be classified under three categories: (a) entrepreneurship promotion programmes; (b) new enterprise creation programmes; and (c) programmes for experienced entrepreneurs.

10. Entrepreneurship promotion programmes are mostly educational in nature in that they usually do not contain a permanent enterprise-creation element. They focus on providing general information about entrepreneurship to encourage participants to think about taking up entrepreneurship as a career. As a rule these programmes form part of the education system at various levels. The programmes are usually short and last from one day up to one week.

11. Some programmes, such as Young Enterprise in Oxford, England, give these potential entrepreneurs an opportunity of forming and running their own limited short-term companies, yet overall their objectives are limited to: (a) increasing knowledge and awareness of business activities while promoting further education and career choice; (b) developing initiative and self-confidence; (c) improving leadership skills and concepts of teamwork; (d) assisting in forming positive relationships with others; and (e) enhancing ability to give and receive advice and criticism, encouragement and support.

12. New enterprise creation programmes are comprehensive training packages aimed at developing certain entreprene rial competencies in participants which could lead to self-employment, economic self-sufficiency or employment generation. These programmes focus on developing the knowledge, skill and attitude necessary to run a business. An integrated process of identification, motivation, training, counselling and support is the basis of the approach followed in order to achieve desired and permanent results. Many such programmes focus solely on developing first-generation new enterprises. An example of this approach is the programme of the Entrepreneurship Development Institute (EDI) in Ahmedabad, India. The EDI programme was established in 1983 and has been duplicated in all Indian states. EDI has expanded its programme beyond the traditional business sectors and now encompasses people who had been previously excluded from the business community because of their socio-economic background, gender or other reasons.

13. EDI's training activities consist of a mixture of classroom study, counselling, field and work experience lasting 150 hours through six weeks of full-time participation, or 180 hours in three months of part-time work at night for currently employed persons. After selection of participants is completed, each potential entrepreneur must provide a viable business project. Through the course-work they are equipped with basic managerial understanding while receiving technical support for their specific projects. Once that is achieved, they are assisted in securing financing. Upon graduation, participants are provided with follow-up counselling.

14. Programmes for experienced entrepreneurs focus on improving business practices and performances of entrepreneurs who cannot afford to employ specialists to work with their ventures. The Small Business Centre at Durham University Business School in the United Kingdom initiated its Small Firms Growth Programme in order to assist British entrepreneurs in developing the strategic management capability of individual owner-managers. The programme includes four components broken down into: enterprise development workshops, business profiling at each participant's workplace, specific business counselling and informal support services. After 15 days of workshops over a period of 12 months, technical assistance is tailored to the entrepreneurs' specific needs.

15. Another strategy incorporated into a programme for established entrepreneurs is the Improve Your Business programme of the International Labour Organization (ILO). This management and training programme for micro- and small enterprises in developing countries offers courses on basic business knowledge and activities. The training is carried out through seminars, workshops, and counselling. Participants are usually entrepreneurs from the same business sector, so the course-work can be tailored to focus on common problems faced by all in attendance. The course-work timetable is dependent upon knowledge of the participants and follow-up activities are usually group-oriented. 4/

II. THE EMPRETEC PROGRAMME

A. The concept

16. The EMPRETEC programme combines elements of programmes under each of the three categories, but in addition it has unique features. They are the following:

(a) An effective procedure for identifying and selecting promising entrepreneurs;

(b) A coalition of private and public sector leaders that participates in the direction of the programme at the national level;

(c) The mobilization of active support from the business community, including TNCs;

(d) A network linking EMPRETEC graduates within the country, across borders within the region, and internationally;

(e) A mechanism to foster business linkages between foreign and domestic SMEs;

(f) An institution-building component.

17. The EMPRETEC concept draws on selected aspects of three programmes, namely the Entrepreneurship Development Programme of India's EDI, the Gemini programme of Bocconi University's Business School (Italy), and the Rensselaer Polytechnic Institute's (RPI) industrial innovation programme based in Troy, New York, United States of America. The experiences of India's EDI and of the Italian Gemini programmes showed that targeted intervention can substantially improve the survival rate of SMEs, and the RPI programme established a successful approach to transforming a depressed area (Troy, New York) into a high-tech centre - through a highly effective interaction between industry, university and government.

18. In addition, the entrepreneurial training component of EMPRETEC draws on the results of four years of USAID-supported research on personal entrepreneurial characteristics conducted by the Washington, D.C.-based firm Management Systems International (MSI). The MSI research demonstrated that promising entrepreneurs can be identified and trained, and based on the results of this research MSI developed a compact, cost-effective, training programme for identifying and developing local sources of entrepreneurship. By providing a sharp focus, the MSI-developed programme covered in two weeks training materials which until then were given over longer periods of one to two months.

19. EMPRETEC has been designed as an entrepreneurship and business development programme to provide training, technical assistance, and an institutional base for the formation, expansion and transformation of SMEs. The programme identifies promising entrepreneurs, provides them with training aimed at developing their entrepreneurial traits and at understanding basic business procedures, assists them in the preparation of business plans and in financing

their business ventures, helps to arrange mutually beneficial connections with larger national and foreign companies, and makes available long-term support systems to facilitate the growth and internationalization of their ventures.

20. EMPRETEC emphasizes the building of effective, active coalitions of public institutions, private business associations, national and foreign companies, and multilateral organizations which grow into a self-sustaining infrastructure. This coalition provides the environment and the skills, financial resources, technology, market opportunities, training programmes and technical information necessary for entrepreneurs to realize their projects and expand their activities within and beyond national frontiers. Each EMPRETEC country programme accordingly draws on a country's existing efforts and institutions, on multilateral programmes and on TNCs and other larger companies in the country, to facilitate - by providing advice, training, technology supplies, marketing access or equity financing - the success of the country's SMEs.

21. The programme aims at establishing a permanent private sector institutional base for developing and assisting SMEs. Each country programme is planned by a working group drawn from local and foreign businesses and from relevant government and multilateral organizations, with the executing organization acting as facilitator. Similarly, public and private sector representatives assist with parts of the training and support elements of the programme. Rather than duplicate efforts, EMPRETEC arranges for effective cooperation with existing local government, NGO and multilateral agency programmes. By emphasizing public-private sector cooperation and by training local people to carry on the workshops and follow-up support, EMPRETEC is self-sustaining. Further, by charging cost-recovery fees as the programme evolves, EMPRETEC is expected to become largely self-financing in three to four years.

22. The role of the central executing agency is (a) to ensure the programme is established and successfully implemented in each country in accordance with the envisaged framework; (b) to make any necessary adjustments in light of specific country circumstances and of lessons learned from other country programmes; (c) to assist in international networking; and (d) to assure long-term high-quality standards of performance.

B. The structure

23. The EMPRETEC programme is composed of six interacting modules, namely: (a) establishing an institutional base; (b) entrepreneurship training; (c) enterprise creation and development; (d) regional and international networking; (e) technology development; and (f) capacity-building. These modules are designed to be sequentially implemented until the full programme is operational.

24. Prior to installing the programme in each country, a specific country programme strategy is designed to address the critical constraints to growth of the SME sector in the particular country, as identified from a field mission and from surveys conducted by international organizations, donor agencies, and local organizations. Although the activities listed below are common to all the country programmes, the implementation modalities may vary from country to

country depending on the specific institutional set up and economic circumstances. For example, the government role in EMPRETEC may tend to be larger in countries with active SME government agencies than in those with weak or no specific SME units. Also, a more intensive effort to secure financing for EMPRETEC enterprises will be needed in countries which either lack lending programmes for SMEs or undergo rapid inflation.

1. Establishing an institutional base

25. Under this module six main activities are carried out:

(a) Involvement of interested top-level government officials and business leaders in the setting up and funding of the programme in each country;

(b) Identification of a strong private sector counterpart organization which provides the operating base for the programme;

(c) Identification and recruitment of a national programme director (with a strong private sector background), to manage the overall programme and the business support centre. The centre, which is the operating arm of the EMPRETEC programme in the country and is established in the counterpart organization, organizes the training workshops and provides advice and follow-up support to entrepreneurs;

(d) Recruitment of an assistant director, who generally takes responsibility for the training component of the programme, and assists the director in providing follow-up support to the entrepreneurs and in the selection of promising projects;

(e) Identification of (12) members of the board of directors, and constitution of the board. The board - which is composed of interested high-level government officials, prominent company executives, and leaders of private sector organizations, including banks, universities and NGOs, oversees the programme and provides continuing guidelines for the programme's operations. The board, which typically meets quarterly, establishes a small business committee from among its members to ensure that the business projects which the programme recommends to bankers, and to outside investors, are of the highest quality;

(f) Working out cooperation arrangements with other SME-supporting institutions in the country.

Long-term continuity of the programme, which is key to enterprise development given the long gestation period of new businesses, is facilitated by these institutional arrangements which are designed to ensure wide community support and to build the basis for transferring responsibility for the programme to national institutions at the end of the four-year direct involvement of the international executing organization.

2. Entrepreneurship training

26. The central element of this module is a two-week entrepreneurship training workshop which emphasizes behavioral aspects of entrepreneurship while building and reinforcing the skills necessary to develop and operate a small- or medium-scale enterprise. The main activities are:

(a) Carrying out an outreach campaign through the media, government agencies, and private organizations in order to identify promising entrepreneurs and to sensitize the public to critical entrepreneurship concepts;

(b) Selection of the 25 to 30 most promising candidates for each workshop from over 200 applicants through a carefully designed screening procedure, involving written applications and personal interviews to assess participants' entrepreneurial strengths and weaknesses, their overall entrepreneurial potential and their business "readiness". This is an important step of the programme that has been found to be a critical factor in the overall quality and success of EMPRETEC. About 80 per cent of the participants are established entrepreneurs since the selection process is oriented towards people with business experience;

(c) Conducting the two-week entrepreneurship training workshop, which is designed to strengthen entrepreneurial talents and overcome entrepreneurial shortcomings. The workshop is an intensive programme for identifying and expanding participants' potential to initiate or improve businesses or other entrepreneurial activities. It is an opportunity for entrepreneurs to become more familiar with the behavioural competencies of successful entrepreneurs; to look for, recognize and "code" those behaviours in themselves and in others; to strengthen and enhance the behaviours they choose to work on through practice and reinforcement; finally to apply these behaviours in their own businesses. The target audience for the workshop includes, in addition to start-up and established entrepreneurs, professionals in public or private sector organizations that are expected to act in an entrepreneurial manner. The workshop serves as a critical instrument:

(i) To provide the motivation and build the solidarity lacking in many environments that enable the entrepreneur to work in more confidence;

(ii) To thus create workshop bonds which are instrumental for business growth and for building a critical base of competent, committed entrepreneurs, who become the driving force of the programme and ensures the successful implementation of its subsequent stages. This is practically achieved through the EMPRETEC Business Forum, an association established by participating entrepreneurs, not by EMPRETEC staff, at the completion of the first or second workshop; the associations link together in regional and international associations, interchanging information on business opportunities and on services for their members;

(iii) To build trust among participants (an important factor to stimulate successful partnerships) and between them and the programme;

(d) Training-of-trainers' workshops to train and certify local entrepreneurship lead trainers who take over the conduct of the entrepreneurship workshops beginning with the second year of the programme. Candidate trainers have to participate in four entrepreneurship training workshops, where they gradually increase responsibilities from plain participation in the first workshop to lead trainer in the last workshop. Certification is granted when they perform according to pre-established standards.

3. Enterprise creation and development

27. Under this module, promising, innovative, project ideas of "Empretecos" 5/ are identified by the EMPRETEC staff, developed in cooperation with bankers and business consultants into bankable project proposals, and turned into successfully operating ventures. In order to achieve these results many activities are undertaken, the main ones being:

(a) A four-month series of short weekly workshops enabling small groups of six to eight Empretecos to analyse their businesses and develop action plans under the guidance of a trained facilitator, who is retained by the EMPRETEC Business Centre on a part-time basis. The action plans lead directly into business plan preparation;

(b) Identification by the EMPRETEC national staff of promising project ideas presented by participants at the various EMPRETEC-sponsored training workshops;

(c) Evaluation by private sector panels of bankers and successful business people 6/ of selected business plans submitted by Empretecos who are advised on how to convert them into bankable project proposals;

(d) Assistance to Empretecos in developing and finalizing their project proposals, including preparation of feasibility studies, by cooperating business executives or associated consultants;

(e) Assistance to Empretecos in securing finance and in launching the project, by the EMPRETEC national staff. In this context, efforts are made to facilitate Empretecos' access to credit, for instance by helping set up a credit line for EMPRETEC businesses within an established banking institution (e.g. Banca Nazionale del Lavoro, in Uruguay), or by helping to create an SME-association of cooperating banks for the purpose of centralizing, and thus improving, the appraisal of SME projects, and reducing security and collateral requirements (similar to Kenya's Small Enterprise Credit Association - SECA);

(f) Follow-up training modules in modern business practices such as financial management, merchandising, quality control, pricing techniques, personnel and inventory control, which permit Empretecos to acquire necessary business skills as they need them in time slots which do not interfere with running their businesses. The modules are given by EMPRETEC-selected local business consultants or cooperating business executives;

(g) One-on-one assistance by EMPRETEC national staff to established Empretecos in accessing quality consultancy services and in identifying and negotiating subcontracting arrangements with larger companies;

(h) Assistance by EMPRETEC national staff to complementary smaller EMPRETEC companies which may benefit from a larger size, in establishing cooperation networks, medium-sized partnerships or joint ventures;

(i) Assistance by EMPRETEC staff to larger companies in spinning-off some of their less efficient operations and transferring them to suitable EMPRETEC enterprises. Although some assistance is free of charge, particularly at the beginning of the programme, entrepreneurs pay subsidized, and later on, cost-covering fees for the training workshops and for many of the services provided by EMPRETEC.

4. Regional and international networking

28. The programme capitalizes on the outward-looking, export and international business orientation of the entrepreneurs, making EMPRETEC a regional and world-wide programme network. By linking up national programmes with regional and international business databases and networks, the programme offers direct access to export and business opportunities. 7/ In addition, as strong local joint venture partners emerge and solid investment projects are generated through the various EMPRETEC activities, specific efforts are directed at fostering linkages between domestic SMEs and TNCs. Some of the activities undertaken to stimulate cross-border business ventures among Empretecos and to foster business linkages of Empretecos with TNCs are:

(a) Regional business exchange meetings and workshops on trade and investment opportunities within the region or subregion for Empretecos of neighbouring countries, in cooperation with regional business organizations;

(b) Assistance by EMPRETEC national staff to Empretecos in establishing cross-border ventures among them;

(c) Organization and conduct by the executing organization of workshops on negotiating and establishing such international business collaboration arrangements with foreign companies as: subcontracting, joint ventures, technology transfer, licensing, franchising, marketing and management agreements, access to international networks, and export-oriented joint ventures;

(d) Identification, by EMPRETEC staff in cooperation with established enterprise-support organizations in the country such as development banks, investment boards, chambers of industry and commerce, venture capital companies, etc., of promising project proposals that may benefit from collaboration with foreign companies. The project proposals may be generated by the cooperating organizations or from EMPRETEC-sponsored workshops;

(e) Selection by the EMPRETEC Board's Business Committee of business linkage project proposals to be supported by the programme;

(f) Establishment by the executing organization of a network of cooperating business associations and other organizations in industrial and advanced developing countries. Such organizations are instrumental in successfully locating suitable foreign companies in their respective countries to collaborate with the selected SME projects;

(g) Assistance, by the executing organization, to domestic SMEs in negotiating fair and equitable contractual arrangements with TNCs and other foreign companies;

(h) Other networking mechanisms are national and international newsletters, cross-programme study tours for EMPRETEC national staff, and the EMPRETEC international and national offices which provide entrepreneurs with information on business opportunities and technological developments.

5. Technology development

29. The original objective of EMPRETEC was to focus on technology-oriented SMEs and on technology development in order to improve the international competitiveness of developing country SMEs. Although EMPRETEC succeeded in generating a number of technology-oriented projects, this has been achieved as part of the general entrepreneurship training, and not as a result of systematically developed technology-oriented activities. Work on the establishment of business incubators and technology parks, along the lines of the Rensselaer Polytechnic Institute model, could not be developed beyond the initial stages because of resource constraints at EMPRETEC's headquarters. 8/

6. Capacity-building

30. The activities under this module aim at developing the national institutional and managerial capacity to promote entrepreneurship and SME development on a long-term, self-financing basis and are all carried out by the National Programme Director in cooperation when necessary with the executing organization:

(a) Private sector business organizations: entrepreneurship training workshops are organized for members of these organizations; their trainers are trained in entrepreneurship training;

(b) Universities: specific entrepreneurship and enterprise development curricula are designed for business and engineering schools; graduate students are mobilized for university/industry joint activities with EMPRETEC, such as studies of the potential for subcontracting among large national and foreign companies, or surveys of the SME capacity to supply large contractors in specific sectors;

(c) Banks: loan officers are trained in how to account for entrepreneurial potential in project appraisal; bank managers are encouraged to organize an association to facilitate SMEs' access to credit;

(d) Para-statals: in support of privatization efforts, specific entrepreneurship workshops are organized for personnel of para-statals to encourage innovation and entrepreneurial behaviour and for managers and employees with entrepreneurial potential to assist them in starting their own ventures;

(e) Other public sector agencies: awareness programmes are organized to sensitize public sector officials to the role of entrepreneurs in development and the need to facilitate and support them in their business ventures;

(f) EMPRETEC Foundation: building upon the EMPRETEC institutional base set up in each country, an EMPRETEC Foundation or equivalent organization is established by the local organizations to continue the programme on a self-sustaining basis beyond the four-year involvement of the international executing organization. Typically, the key institutions represented in the Board of Directors become the founding members of the Foundation.

31. The typical sequence of activities of an entrepreneur who wishes to benefit from the EMPRETEC programme is as follows:

(a) He or she starts with the selection procedure, which requires the completion of an application form, an individual interview and, if selected, participation in the entrepreneurship training workshop;

(b) At the end of the workshop, the entrepreneur is invited to join the local EMPRETEC Association, where common problems are discussed, mutual support is provided in overcoming bottlenecks, and contacts are made that often lead to partnerships and joint ventures;

(c) The local EMPRETEC office follows up on the workshop by assessing, together with the entrepreneur, the different needs which the entrepreneur's project has and discusses ways in which EMPRETEC can help in realizing the project;

(d) Initial support, such as fine-tuning the business plan or assistance in seeking financing, is usually free of charge but follow-up support services are provided for a subsidized or cost-covering fee;

(e) Participation in the EMPRETEC programme provides Empretecos with the possibility to make use of a large variety of services and contacts to assist them in establishing or expanding their businesses: specific training courses can be organized on request, experts can be retained and appointments with bankers and other business contacts can be arranged;

(f) For Empretecos interested in international business, services are available through the local EMPRETEC offices varying from general information on international markets to the provision of details on foreign buyers and sellers or potential business partners; in addition Empretecos are invited to attend international EMPRETEC meetings which facilitate cross-border business arrangements between them.

C. Unique features

32. From its initiation, EMPRETEC establishes in each country an effective and active coalition of public sector officials, entrepreneurs, experienced managers, bankers and TNC executives that participate in the direction of the programme at the national level. This coalition, together with the EMPRETEC associations of entrepreneurs, guarantees the future self-sustainability of the programme. By involving representative business associations and public sector officials in the management of the programme, EMPRETEC provides an instrument for identifying and removing unnecessary bureaucratic constraints imposed on entrepreneurs and SMEs, thus contributing to improve the overall business climate of a country.

33. The programme uses local expertise and local private and public sector resources. National Programme Directors are therefore nationals and in the first two to three years of each programme much emphasis is given to training of local staff and trainers.

34. Mobilization of local support is also high on the agenda of each National Director, since United Nations funding is provided only for the first three to four years while the programme is being developed and consolidated. Each National Programme therefore becomes largely self-financing at the end of that period, when the programme can generate its own resources from fees charged for activities and services and local sponsors are prepared to cover some of the costs. The need to become self-financing forces programmes to fine-tune their activities to meet the needs of their clientele and to maximize the success rate of entrepreneurs. A high return on programme resources also increases the interest of programme sponsors, such as local banks, private companies and public sector agencies.

35. Governments have strongly supported the EMPRETEC programme because of (a) its objective selection of entrepreneurs, (b) its provision to build the national capacity, (c) its ability to mobilize resources from the private sector, including TNCs, to help develop the SME subsector, and (d) its international dimension comprising of advisory services on international markets and on potential foreign partners, and a network of EMPRETEC entrepreneurs currently covering eight different countries.

III. PROGRAMME RESULTS

A. Current programmes

36. The first EMPRETEC programme started in 1988 in Buenos Aires, Argentina. Since then seven other programmes were established, namely in Nigeria (1989), Uruguay (1989), Chile (1990), Ghana (1990), Brazil (1991), Zimbabwe (1992) and Venezuela (1992). 9/ Most of these programmes, except the programmes in Brazil and Venezuela, are based in the capital city. Some have more than one office and include fully staffed regional offices, such as Ghana (2) and Nigeria (2). The programme in Brazil is presently based in two states but it is expanding to five others.

37. In addition, preparatory assistance or project documents have been formulated and submitted for the following 18 countries:

(a) Africa and the Middle East: Egypt, Ethiopia, Mozambique, United Republic of Tanzania, Tunisia, Uganda and Zambia;

(b) Asia: Pakistan and the Philippines;

(c) Latin America and the Caribbean: Bolivia, Jamaica, Mexico and Trinidad and Tobago;

(d) Eastern Europe and the newly independent States: Albania, Hungary, Latvia, Lithuania and Romania.

Also requests for EMPRETEC programmes have been received from Benin, Colombia, Oman, Paraguay and Viet Nam.

38. Professional EMPRETEC staff members in the field, totalling 22, have been trained in the various aspects of entrepreneurship and business development. The programme has also trained 30 local trainers who have been officially certified as Entrepreneurship Development trainers. Project installation manuals, training handbooks, EMPRETEC newsletters and EMPRETEC client databases have been developed and improved over the last six years, thus helping Empretecos in eight different countries to have access to up-to-date information and to continue a dialogue with EMPRETEC staff on the effectiveness of ongoing activities and the need for additional support services.

39. In addition, active coalitions of public and private institutions have been mobilized in all eight countries where they participate in EMPRETEC National Committees or Boards, and in technical advisory panels. There are also 12 active associations of Empretecos of which 8 are in Latin America and 4 in Africa. There is more than one association per country because the programmes have decentralized operations by establishing support centres in various locations within each country. The associations are locally based but they maintain strong links with each other and with associations abroad.

B. Impact on entrepreneurship and development of small- and medium-sized enterprises

40. The programmes had a significant impact on the local economies in the form of entrepreneurs trained, business generated, jobs created, export growth and technology transfer. Not less than 25,000 entrepreneurs applied in the past six years for participation in the entrepreneurship workshops. After careful selection, 2,257 (of whom 25 per cent are women) were trained and received technical assistance as of January 1994.

Box 1

CATALYTIC CONVERTERS FOR CITY BUSES - An environment-friendly joint venture (Argentina/Chile)

Jorge Sans, an Empreteco from Mendoza, Argentina, owns a company which produces automotive supplies and commercialized clutches and brakes.

Through the programme he met Chilean Empreteco Wenceslao Vivanco who, using Canadian technology, had developed a system for cleansing diesel exhaust. Within two months, Jorge and Wenceslao established a transnational company, encouraged the provincial government to set specific limits on bus exhaust in the city of Mendoza (approximately 1 million inhabitants) and reached an agreement on the technical specifications with the owners of urban transport buses for the utilization of this type of catalyser.

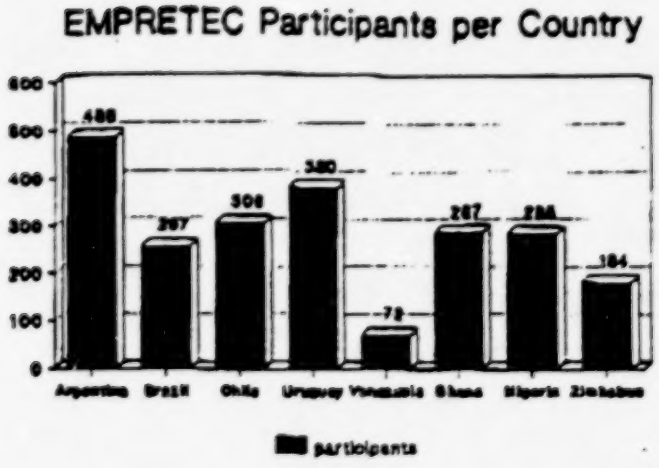
Jorge and Wenceslao received an order of US$ 300,000 from different bus companies and exported a total of 500 bus catalysers to Mendoza, equipping all urban transport buses in the city.

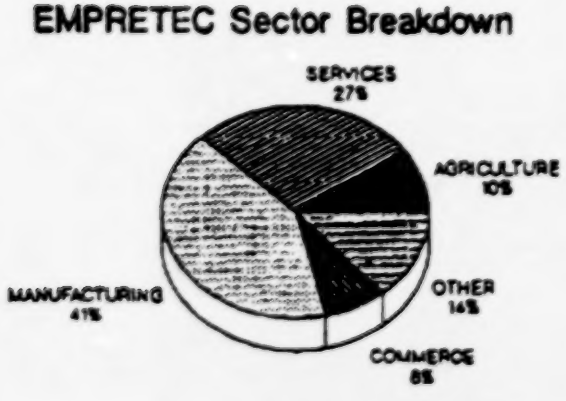
Now that the city of Buenos Aires has set the same regulations on exhaust from city buses, the Argentinean/Chilean joint venture is in the process of negotiating a similar deal in Argentina's capital city.

41. About 80 per cent of the entrepreneurs who entered the programme already operated a business and were looking for assistance in expanding their enterprise. Of the entrepreneurs who did not have a business, over 250 started a new enterprise in such sectors as food-processing, agro-industry, textiles, plastics, chemicals, automobile parts, informatics, and bio-technology. Moreover, as the gestation period of new businesses is one to two years, and sometimes three years, new businesses are generated at an increasing rate as the programmes mature.

42. A sectoral breakdown of the enterprises operated by the participating entrepreneurs is shown in figure 1. It is not surprising that 41 per cent of the businesses fall into the manufacturing sector since one of EMPRETEC's objectives is to improve the productive base of local economies, and entrepreneurs are thus partly selected on the basis of their business or project idea. The selected enterprises in the services and commerce sectors are generally innovative or employment generating.

Figure 1. Total number of entrepreneurs (as of January 1994) selected by the EMPRETEC programme to participate in the entrepreneurship workshops and to receive technical assistance





Box 2

FAMILY HEALTH CARE (Venezuela)

The EMPRETEC programme in Venezuela is based in Merida, a city in the Andes region. Mr. Hernán Rondón is an entrepreneur who in 1991 established a family health care service in Merida and called it Asistencia Médico Familiar. The company sells family health care plans to low-income groups, provides basic medical and dental services in its own clinic, and partially compensates the costs of medical treatment elsewhere if it refers clients to the hospital or a specialist.

Since its inception, Mr. Rondón's business has grown from 2 to 34 employees. The number of patients enrolled in the company's health care plans grew from 450 in 1991 to 3,600 in 1993 and the medical services provided by the clinic are being expanded to respond to the fast-growing clientele.

Mr. Rondón joined EMPRETEC in October 1992 and the programme helped him in many ways, but especially in improving his management skills. An area in which EMPRETEC's assistance was essential was in finding alternative solutions for financing the enterprise's rapid expansion. Instead of borrowing money, Mr. Rondón was advised to start partnerships. This worked out very well and with EMPRETEC's help, Mr. Rondón is now developing new plans for future expansion.

43. Currently 10 per cent of the businesses assisted fall into the agricultural sector, but the share of this sector may grow in the near future because of the desire of local private and public sector organizations to decentralize part of the programme's activities. The "other" category in figure 1 represents entrepreneurs who are in the process of starting a new business or changing their line of business.

44. Nearly all entrepreneurs who enrolled in the programme and already had a business were able to expand or modernize their business operations after joining EMPRETEC. Statistics from the EMPRETEC programme in Uruguay show that entrepreneurs who have been in the programme for two and a half to three years, despite the difficult economic situation in Uruguay, have increased the number of employees by 18 per cent, sales volume by 87 per cent, assets by 42 per cent and their exports as percentage of total sales by 100 per cent.

45. EMPRETEC's success caught the eyes of several donor organizations. Some bilateral and multilateral donor agencies decided to sponsor EMPRETEC rather than duplicate efforts by starting new programmes, and contributed substantial funds to national institutions for the expansion of programme activities under the EMPRETEC umbrella. The Italian Government, which provided the initial funding ($1 million) that started EMPRETEC in Latin America's southern cone countries, was the only direct contribution to the executing organization. Others provided funds through local organizations. USAID contributed $600,000 for EMPRETEC activities in Chile, Ghana and Uruguay. The United Kingdom's ODA contributed $2,188,000 to the programme in Ghana for the provision of technical support to SMEs and to assist them in the establishment of business linkages

with companies in the United Kingdom and in other European Community countries. The Spanish AECI contributed $175,000 to support EMPRETEC activities in Uruguay. Smaller contributions of between $5,000 and $25,000 have been made by Canadian CIDA, German GTZ, IDB, ITC, and UNIDO for the implementation of specific programme activities. Private and development banks, as well as private companies, have also provided financial support to the programme.

Box 3

LADIES' AND CHILDREN'S GARMENTS (Zimbabwe)

Ruth Pasipanodya's business is only three years old, but she already employs 75 people. Her company, Escapades, specializes in the design and manufacturing of ladies and children's garments. EMPRETEC Zimbabwe has helped Mrs. Pasipanodya through various training programmes, such as entrepreneurship development workshops, marketing training, and a course in customer services. She also received guidance in the areas of quality control, production line efficiency and personnel incentives.

Escapades' high-quality cotton clothing is produced using local material. To diversify within the domestic market, the company will expand product lines that utilize imported polyester blends. The import of these raw materials requires hard currency, so Mrs. Pasipanodya is looking for export markets for her high-quality cotton fabrics. She attended the 1993 EMPRETEC Global Fair to test her products on the international market and to look for export opportunities in Latin America, where discussions are under way on trade arrangements with Latin American Empretecos.

C. Impact on regional and international enterprise cooperation

46. The increased export sales of EMPRETEC enterprises, particularly in Uruguay, is a direct result of the regional and global EMPRETEC meetings, five of which have already taken place in Brazil, Chile and Uruguay. The first four meetings had a regional character and hosted entrepreneurs from the Latin American EMPRETEC programmes. The last meeting in September 1993 which was held in Porto Alegre, Brazil, was the first global EMPRETEC meeting bringing together African and Latin American entrepreneurs. In total 250 entrepreneurs from Argentina, Brazil, Chile, Ghana, Nigeria, Uruguay, Venezuela and Zimbabwe participated in this meeting.

Box 4

MICAP COMPUTER SERVICES - A tech-based SME (Ghana)

Michael Appiah, whose company Micap Computer Services was featured in 1992 in Newsweek magazine, also attended the EMPRETEC global meeting in Brazil to find up-to-date equipment for computer repair and services. He had many meetings with Empretecos who were in the same business and also visited the MERCOPAR Industrial Sub-contracting Fair, which was held in Caxias do Sul, parallel to the EMPRETEC global meeting in Porto Alegre.

Mr. Appiah developed and is currently producing the Uninterrupted Power Supply (UPS) unit, which is less expensive and of better quality than any other UPS system offered on the Ghanaian market. Employing 12 people his company has been very successful and one of the reasons for this success is the company's flexibility in responding to changing market needs in the areas of computer repairs and computer training services.

The EMPRETEC programme has been essential in helping Micap negotiate with several potential joint venture partners. Mr. Appiah especially praised the programme's assistance in preparing a company profile and in formulating a business proposal for future expansion.

47. At the global meeting in Brazil, EMPRETEC, together with the local counterpart, the Brazilian Micro and Small Companies Support Service (SEBRAE), facilitated through business rounds the initiation and establishment of business linkages. An evaluation of the meeting shows that 350 different business linkages were initiated varying from selling-buying agreements to cross-border agency contracts. Most of these new business contacts were considered by the entrepreneurs as good or very good and will be pursued by them with the assistance of EMPRETEC. The global meeting was already followed up in December 1993 by a mission of 35 Brazilian entrepreneurs to Montevideo to meet with their Uruguayan counterparts.

Box 5

DIGIVOX - A high-tech SME (Brazil)

With two associates and three employees, Digivox is a relatively small enterprise in Porto Alegre, but it falls in the high-tech category. Mr. Luis Augusto Duarte, entrepreneur and associate in the company, developed software for examining audio-soundtrack equipment. In November 1993 he released a newly developed software program to be used in conjunction with electrocardiographs (ECG).

Mr. Duarte first displayed a prototype of his new system at the MERCOPAR Industrial Sub-contracting Fair. At the Global EMPRETEC Fair, two Empretecos agreed to be his agents in Argentina and Uruguay, marketing his new ECG software package in these countries.

According to Mr. Duarte, EMPRETEC not only helped him in making the step from technician to entrepreneur, but also provided him with a network of business contacts crucial to developing and marketing his products.

48. Another EMPRETEC activity facilitating cross-border business linkages is INNET. This information network has been established in 1993 and is based in EMPRETEC headquarters. INNET helps establish business linkages by responding to specific requests from entrepreneurs for information on international markets, foreign buyers and sellers, equipment and potential business partners. This service is still in a pilot stage, but already processes about 10 requests per month.

49. Contact between EMPRETEC programmes and entrepreneur associations in Latin America and the regional meetings in Uruguay, Chile and Brazil have been instrumental in the establishment of hundreds of cross-border business linkages between EMPRETEC entrepreneurs from Argentina, Brazil, Chile and Uruguay. These enterprise-to-enterprise linkages are contributing to regional integration and to improving the investment climate in the Southern Cone region. Future promotion of regional integration is envisioned through the establishment of regional EMPRETEC offices in Latin America and Africa. These offices will be responsible for strengthening the regional networks as well as back-stopping EMPRETEC's national programmes.

Box 6

CLAY AND PAINT PRODUCTS FOR CHILDREN (Uruguay)

Mr. Mario Rabinovich is an Empreteco from Uruguay and owns a company called Rabinovich & Infantozzi, which produces non-toxic paints and coloured clays for children.

Mr. Rabinovich is affiliated with more than 100 schools and has developed an eight-hour course for parents and teachers in the use, theory and appreciation of his clay and paint products. Over 3,000 people have already attended the course, 500 from Bolivia and Argentina.

According to Mr. Rabinovich, EMPRETEC has been instrumental in helping him expand and diversify his market. At the EMPRETEC global fair in Brazil he met with potential partners interested in franchising his products. A chemical engineer, Mr. Rabinovich is a professor at the Universidad de la Republica in Uruguay and, as an active member of the EMPRETEC Entrepreneurs Association, he has helped several Empretecos in the technical development of their products.

50. An important achievement of the EMPRETEC programme has been in stimulating large national and transnational corporations to cooperate with local SMEs. To date, EMPRETEC enterprises have established links with over 100 large national and transnational corporations, including Agfa Gevaert, Barclays Bank, Coca-Cola, DuPont, IBM, Johnson & Johnson, Ogilvy & Mather, Price Waterhouse and Siemens.

IV. EVALUATION

51. EMPRETEC is now a major entrepreneurship and SME development programme with established support offices, boards of directors, full-time national programme directors and staff (numbering 22), and over 2,000 participants and their EMPRETEC associations in eight countries of Latin America and Africa. The current budgets of the existing programmes add up to over $5 million, and the budgets of the 18 programmes in the pipeline are estimated at $9 million (for three years). It is important to note that only a minimal amount of these funds is allocated to financing the central operations. When all these programmes are in place by mid-1996, there will be more than 60 programme directors and staff in the field. In addition to these pipeline programmes, requests for national projects have been received from five more countries.

52. EMPRETEC programmes had no doubt a significant positive impact on local SME development. The effects have been different in each country depending on the local economic and political situation. The favourable economic climate in Chile and Ghana have given a major boost to the SME sector in these countries and helped many EMPRETEC entrepreneurs reach their targets. On the other hand, entrepreneurs in Nigeria had more difficulties during 1993 with the continuous political unrest and an often stagnant economy. Much of the resources and efforts which were put in the Nigerian programme could, therefore, not be

optimally used. It is clear from the experience with EMPRETEC that the programme is effective in promoting entrepreneurship and SME development, but its success rate depends heavily on the political and economic environment in which the entrepreneur has to operate.

53. The success of the programmes is largely due to the joint commitment of the United Nations, government agencies, private sector and client entrepreneurs to make EMPRETEC work. The United Nations role has mainly focused on the establishment of the programme, training of directors, quality control over programme activities, bringing "best practices" in any one programme to the attention of all others, and the financing of personnel and activities during the initial three to four years of the programme.

54. The programme has:

(a) Demonstrated success in identifying, motivating, focusing and providing training, advice and assistance to entrepreneurs to enable them to develop their projects and turn them into profit-making enterprises;

(b) Contributed to energizing the private sector and to improving the business environment. In particular, it has stimulated business associations to enhance and expand support services to their SME members and it has provided an important link between the established business community and the emerging entrepreneurial class, which has been given a voice through the association of Empretecos;

(c) Shown that small/medium businesses can be effective agents for regionalization and internationalization. In this context, it stimulated entrepreneurs into exporting their products. The international dimension played an especially crucial role in countries with a smaller internal market, such as Chile, Ghana, Uruguay and Zimbabwe;

(d) Produced an awareness of the potential benefits to be derived from linkages between subsidiaries of TNCs and domestic SMEs and has developed methods to facilitate those linkages;

(e) Proven that it is possible to establish national institutions to carry on the programme independently from EMPRETEC headquarters and on a self-sustaining basis;

(f) Opened the way to cooperative, productive arrangements with other multilateral and bilateral programmes, thereby enhancing both its and their effectiveness.

55. EMPRETEC headquarters currently serves eight countries. In Latin America, Argentina has been operating for six years, Chile four years and Uruguay five years. These are mature programmes which are continuing beyond the executing organization's original commitment of three years. The three of them have been institutionalized, Argentina and Uruguay in EMPRETEC Foundations, and Chile in Fundacion Chile, which was the original counterpart organization. While the executing organization no longer contributes to their budgets, nor

does it have a defined role in their operations, their continued viability and success is intertwined with and vital to the further growth of EMPRETEC.

56. Brazil and Ghana are completing their third and fourth years, respectively, and still require some support from the executing organization. UNDP and the Government in both countries are committed to programme expansion to other national regions as well as in content and international networking. A $1 million expansion of EMPRETEC to five new states has recently been approved by the Brazilian Government and UNDP. Similarly, in Ghana UNDP has approved a $0.5 million expansion of the programme to various regions of the country, and the United Kingdom's ODA has granted to the EMPRETEC counterpart organization in Ghana the equivalent of $2.2 million to finance business linkages of Ghanaian SMEs with United Kingdom and European businesses.

57. Nigeria has been operating for over four years but administrative problems in the local office, and resource constraints at EMPRETEC headquarters, have inhibited its proper development. The basics now are in place, but the inherent administrative problems have not been fully resolved and further close monitoring and supervision are necessary.

58. Zimbabwe and Venezuela are the newest programmes. They have been operating for just over a year, and it is too early to evaluate their performance.

A. Programme strengths

1. Selection and motivation of entrepreneurs

59. Working from the original model, the programme management modified and adapted the selection procedures to improve the percentage of entrepreneurs who succeed in starting and developing their businesses. EMPRETEC's trademark entrepreneurship workshop which begins the support process is perhaps the most widely successful element and an essential instrument to generate the motivational energy which drives the subsequent elements of the programme.

2. Developing new businesses

60. The programme has considerable success in generating new enterprises and expanding existing businesses. Many of these businesses are between Empretecos, both nationally and regionally. The growth in business and enterprises continues long after the entrepreneurs receive the initial training.

3. Bottom-up approach

61. One of EMPRETEC's strengths has been its bottom-up approach, basing its concept, implementation and activities on the real needs of its participant entrepreneurs. This has been possible by maintaining a flexibility that permits the programme to learn from its entrepreneurs and adapt to their changing needs. The programme has relied on its participants, directors and local trainers for guidance in making changes and introducing new concepts rather than imposing

them from headquarters. It was the entrepreneurs who led programme management to the need for interchange and mutual support from their peers and the resultant growth of EMPRETEC entrepreneur associations. It was the entrepreneurs who initiated the drive for regional networks and their regional business-promoting round-ups. And it was the entrepreneurs who led management to devise business analysis programmes to help them develop action plans.

4. Institution building

62. EMPRETEC could not have achieved its record without the establishment of strong national institutions. Long-term continuity requires wide community support and a sense that the programme is a national responsibility. This was achieved through several integrated modalities:

(a) National financial support is obtained to supplement UNDP and other donor contributions to the programme;

(b) A strong counterpart institution is invited to house the national programme;

(c) A working private sector-driven national committee or board is established in each country to oversee the programme and take responsibility for it;

(d) Effective entrepreneur associations are supporting their members and the programmes.

Together, these steps have resulted in the mature programmes, such as Argentina, Chile and Uruguay, continuing to function and find financial support on their own after the initial United Nations funding has terminated.

B. Shortcomings and needed improvements

63. There are several areas which need reinforcing and improvement and others which, although listed as part of the programme, have not been fully implemented so far.

64. Follow-up training: While arrangements have been made for scholarships to several privately sponsored short-term courses, the programme has no systematic training to offer on an ongoing basis. It is important to develop a modular training series which would be attractive to the entrepreneurs and tailored to their time restraints. More interaction with local universities and training institutions as well as with ILO should also be pursued to fill this need.

65. Linkages with TNCs: With the exception of the programme in Ghana, no systematic attempt has been made to facilitate and stimulate linkages with foreign companies. Executives from subsidiaries of TNCs have been helpful in providing advice and training, but this has not been sufficient to take participants further on the road to consummate a business deal with a foreign company. Internationally, the programme should intensify its efforts to open up

wider networks and databases for linkages and exports and identify, through industrial country business associations, interested SMEs in developed countries. Nationally, efforts should be made to establish a subcontracting exchange.

66. Financing of SMEs: Efforts in this area are ad hoc and left to the imagination of the local director. Yet there are some experiences - such as in Uruguay with Banca Nacionale del Lavoro, and in Kenya with the Bankers' SME association - which have proven successful in facilitating the access of SMEs to financial resources, and these should be systematically developed for application in all the programmes where they are feasible.

67. Participants database: There is no satisfactory database on EMPRETEC participants nor a fully developed system for tracking their progress. This information is vital for monitoring and evaluating the results of the programmes.

C. Cost effectiveness

68. The cost of each country programme varies from country to country depending on the local contribution and existing infrastructure and on the availability of local trained entrepreneurship trainers. When EMPRETEC was started in 1988 local trainers were not available, and the foreign exchange cost of the programme was close to $700,000 for three years, of which roughly one third was for training subcontracts and fellowships. Now that there are local teams of certified entrepreneurship trainers in both Latin America and Africa the cost of programmes is considerably lower. They are about $550,000 for three years, of which some one fifth is for fees of national trainers and for training fellowships. The local costs for such items as rental of office space, conference rooms, training facilities, salaries of administrative and secretarial staff, telephones, local advertising, etc., estimated at about the equivalent of $200,000 for three years, are contributed mainly in kind by the counterpart organization. When the programme matures (three to four years), the cost per year can be kept at around $150,000.

69. A measure of the cost effectiveness of the programme is the extent to which the annual operating costs can be recovered from fees charged for training workshops and business support services. This is in fact the case of the more mature programmes in Latin America which are now largely self-financing. The fees per participant charged for the entrepreneurship training workshops are $300 in Uruguay, $400 in Argentina and $600 in Chile. These fees not only recover costs, but provide extra revenue for other EMPRETEC activities.

70. Every programme has a different fee structure dependent on the experts used and on external funding. Some programmes, such as EMPRETEC Nigeria, have provided most support services free of charge, but they are now developing a fee structure for all services. EMPRETEC Ghana charges $600 (60 per cent cost-covering) for the preparation of a business plan. A Ghanaian SME can now hire through EMPRETEC the services of an international senior adviser in financial management, marketing or production management for about $600 per month (30 per cent of real local costs, excluding off-shore expenses).

D. Personnel/budget issues

71. EMPRETEC's eight field offices were coordinated by a six-person team based in New York, but as a result of the transfer of the programme to Geneva, the team has been reduced to four. The team at full strength is composed of a programme manager, a secretary, one officer for Latin America and the Caribbean, one for Africa and Asia, one for economies in transition, and one for building up and operating the information network. All of the staff have been on temporary extrabudgetary posts or have been associate experts funded by donor Governments. In the past, the Netherlands and Italy funded two EMPRETEC officers each, and Germany one.

72. The primary functions of the central management team is providing guidance to new directors, ensuring quality through organizational, technical, and financial backstopping, development of new and specialized programme activities, establishment of new programmes and fund-raising for further programme expansion. Several of these functions have been hampered by organizational, budgetary and personnel constraints. In particular, the ability of the programme to provide continuity of support to some national programmes and to fully implement various components has been limited. In some country programmes three different officers were involved at one time or another in a period of less than two years. Lack of programming funds has prevented field missions from taking place in response to requests for new programmes.

73. In order for EMPRETEC to carry out the programme's substantive development and geographic expansion while maintaining its quality and reputation, there is a need to support the necessary staff on a long-term basis and provide for their training. Additional personnel is required at headquarters for programming activities as well as for special programme components, such as the information network, the EMPRETEC database, and the EMPRETEC Bulletin.

74. EMPRETEC's proposal to establish regional South American and African offices to manage regional activities and provide specialized service for client entrepreneurs and for regional joint ventures could alleviate some of the personnel constraints experienced at EMPRETEC headquarters. Financing for such offices, however, has not yet been secured.

V. LESSONS LEARNED

75. In the six years since EMPRETEC was started, several lessons were learned that helped in modifying aspects of the programme. In general the lessons reinforced the basic EMPRETEC concept, while suggesting needed refinements in the modalities of implementation. The following are some of the main themes that stand out.

A. Concept

76. The entrepreneur is the key actor; the focus should be on him/her rather than on his/her enterprise. Early on it was found that the focus of the programme had to be on the individual. Entrepreneurs can generate dynamic, successful enterprises but dynamic, successful enterprises do not self-generate. While the facility with which individuals evidence entrepreneurial behaviour and practice may be strongly conditioned by his or her genes, family background, culture and economic environment, research has shown, and the EMPRETEC workshops confirmed, that such facility can be significantly strengthened by appropriate exposure, training and support. Equally important, the EMPRETEC experience with the selection approach confirmed research findings indicating that entrepreneurial acumen can be meaningfully and accurately assessed by measuring the extent to which an individual manifests key entrepreneurial behavioural characteristics.

77. Practical exercises during the entrepreneurship workshops and the succeeding concentration on business plans oblige the participating entrepreneurs to analyse the commercial possibilities of their projects. More often than not, if the initial projects do not appear to be economically or technically viable, the entrepreneurs do not merely abandon them. They look to other products or markets and get on with their businesses.

78. Mutual support systems providing the entrepreneurs with a sense of solidarity are crucial to producing desired business results. In successful European industrial districts such as Baden-Wurtemberg, Lombardia and Emilia Romagna, communities of small firms have achieved remarkable growth, overcoming isolation and powerlessness through inter-firm relations and networking. The EMPRETEC approach is proving successful in replicating this European model. The bonds created through the initial workshops and the continuing technical and managerial assistance programmes have been geared to facilitate the formation of mutual support groups constituted as EMPRETEC entrepreneur associations (named EMPRETEC Business Forum in the African countries).

79. The associations, acting much like collective entrepreneurs, have stimulated national, regional and international business transactions between their members and have established inter-association agreements and mechanisms which facilitate these transactions. From the first sporadic contacts among individuals, this integration process grew into the first regional EMPRETEC business exchange fair in Colonia, Uruguay, organized by the Uruguayan association. The business accomplished in this first "encuentro" encouraged other associations to sponsor the subsequent fairs as reported under section III.C.

80. The EMPRETEC associations have tied into satellite networks with export databases, set up a database of all association members, agreed to exchange office and secretarial facilities for their members, providing a constant flow of information and opportunities as well as a desk, telephones and secretaries in each country for entrepreneurs from the entire region. The arrangements were formalized, in the case of Latin America, in a charter for an Asociacion

Latinoamericana EMPRETEC agreed to in Montevideo by the representatives of the five Southern Cone associations.

81. SME-foreign company synergy can effectively facilitate enterprise growth and expansion. TNCs and large national corporations are the major marketing, management, technical and financial actors in many of the developing countries. Linking entrepreneurs with subsidiaries of TNCs and the established business communities has opened effective channels for SME development. Executives from firms as diverse as Siemens, Ogilvy & Mather, Price Waterhouse and Bank of Boston have provided input to the programme through volunteered specialized advice and assistance on matters from marketing and financial practices to quality control and new production. They have led training sessions for small groups and provided one-on-one assistance.

82. TNCs can also possibly serve as licensors, joint venture partners and subcontractors and be sources for credit for machinery and materials, technology transfers, management techniques and penetrating overseas markets. In EMPRETEC, for example, firms like Dupont have provided credit, technical assistance in product development and guarantees for machinery purchases. IBM has helped develop subcontractors to provide parts to their world-wide network. Banco Independencia in Argentina has facilitated the sale of smog control equipment for a Chile-Argentina joint venture by providing credit for its customers.

83. The entrepreneur is a driving force for regional integration. The dynamism of the entrepreneurial enterprise is an important factor in making regional integration work. Entrepreneurs are motivated to grow into regional markets, and their businesses are sufficiently flexible and specialized to form partnerships and joint ventures with other SME companies in countries within the region. As at the country level, the entrepreneurial enterprise can be an innovator providing the leading edge for regional integration. By creating a network of business-to-business cross-border linkages, regional entrepreneurial enterprises can enable macroeconomic integration measures to achieve meaningful results in the form of increased economic efficiency and employment, renewed trade and investment flows within and to the region and an improvement in the region's terms of trade.

84. EMPRETEC was originally conceived as a national programme. With the internationalization and regionalization of the entrepreneur associations in the Southern Cone at the first business fair in Uruguay, the executing organization was compelled to regionalize the programme. Arrangements were made for multi-country participants, regional training teams were formed, a newsletter was published, regional meetings were organized for the country directors, assistance was provided in organizing the regional business fairs and programme assistance for business contacts was established in the Latin American countries where EMPRETEC is operational. In Africa there is not as yet a sufficient number of programmes for a regional effort.

B. Implementation modalities

85. Programme flexibility is vital to permit adjustments to the changing needs of the entrepreneur. Entrepreneurs themselves are a flexible lot, constantly adapting to changing markets and developing technologies. It was found that flexibility was just as essential for an entrepreneurship development programme if it is to meet the needs of its own changing market. Initially, for example, the programme was oriented towards developing enterprises, concentrating only on those whose business plans showed promise. EMPRETEC entrepreneurs quickly made the executing organization aware that those who did not present business plans still often managed to get viable businesses under way. They also insisted on their need for a mutual support network. So the modus operandi was changed to assist promising entrepreneurs and their support groups, radically altering the workload of national directors.

86. The executing organization's insistence that business plans had to be presented within a reasonable time after the initial workshop also had to be altered. It was found that most of the EMPRETEC participants already had small businesses when they entered the programme and were more concerned with solving their present problems than preparing longer-term projections. Therefore, business evaluation exercises lasting four months and ending with an action plan were developed to follow the workshop. These exercises have been so well attended that cost recovery fees began to be charged, as it is done now for the initial workshops.

87. Enterprise formation is a local undertaking, even where it is oriented towards national or international markets. While many of the EMPRETEC entrepreneurs are internationally minded, all of them feel strong attachments to their local communities and fellow entrepreneurs. This was to be expected from the expressed need to establish mutual support networks. It led them to establish State or provincial rather than national associations. These local associations act as a national group when participating in international events or arrangements, but members' direct contacts are with their own units.

88. From a programme point of view, it was found that following a similar pattern fosters the formation of a critical mass of participants. This allows the programme to provide follow-up support services more efficiently and adapt activities to differing local needs.

89. In general, government agencies can be more effective in providing a supportive or advisory role than in micro-managing the programme. The contribution of representatives from public sector agencies in the EMPRETEC Boards of Directors has been on balance positive; they have assisted in lifting barriers to SME development, as in the case of Uruguay, they have provided needed funding for the programme, as in the cases of Argentina and Brazil, and funding for EMPRETEC entrepreneurs, as in the case of Argentina. In those countries however, where the Government insisted on, and succeeded in, controlling the programme, EMPRETEC results have been disappointingly poor.

90. Participation of the Government at a sufficiently high level in the EMPRETEC Boards has been helpful to stimulate policy initiatives in support of

SMEs, in response to concerns regarding government-induced constraints on SMEs brought to the attention of the Boards by EMPRETEC association leaders.

91. The success of a national programme depends to a large extent on the entrepreneurial talents of the national programme director. The programmes in Ghana and Uruguay have been the most successful ones so far, in terms of results achieved, initiatives undertaken, funds received, and ability to operate independently with little or no supervision from the executing organization. These programmes are managed by very energetic and resourceful directors who came to the programme from successful experiences in the private sector.

92. The selection of the programme director is a critical step, and where serious judgemental mistakes were made, the programme failed to deliver on its promise.

93. Financial resources for SMEs must be available in the $50,000 to $500,000 range required by most SME entrepreneurs. While there are a number of financing programmes for micro-businesses and both loan and investment programmes for investments in the $1 million and above range, little has been provided for the majority of SME entrepreneurs who require capital falling between these levels. The capital requirements of EMPRETEC participants whose enterprises have the potential to grow beyond their local markets fall between $50,000 and $500,000. Guarantees, inflationary interest rates, a lack of loan officers experienced in reviewing business plans, inadequate institutional arrangements for monitoring loans, shortcomings of some World Bank SME loan programmes that were channelled through State development banks, and the unwillingness of entrepreneurs to admit investor partners, are some of the problems.

94. EMPRETEC has attempted with moderate success to overcome some of these problems by providing a single source of information for all of the financing possibilities in a given country, working with a private bank to provide seed loans for EMPRETEC entrepreneurs, inviting loan officers to participate in EMPRETEC workshops to assist them in making a more realistic appraisal of the entrepreneurs and their business plans, arranging for successful business people who have outside investors to give seminars to the entrepreneurs on the advantages of investment capital, and holding investment forums for small groups of individual investors.

VI. FUTURE DIRECTION

95. EMPRETEC has built a reputation for quality and for generating entrepreneurial, innovative enterprises. This has been achieved by working with the entrepreneur in the field. If the programme is to maintain its quality and reputation the focus must remain on the entrepreneurs and their needs as assessed by direct experience with them rather than deciding what they need from the central headquarters.

96. A precursor to new initiatives is the maintenance of ongoing programmes. These require a significant amount of time from both the programme officer and the programme manager to understand and appreciate the constant shifts in

government and private sector officials, maintain relations with UNDP, keep directors on course and monitor the progress and quality of the programmes.

97. In section IV above, some of the initiatives which are necessary to increase the programme's effectiveness have been indicated. Beyond these, there is a need to intensify efforts in devising innovative financing arrangements for the entrepreneurs, including special credit lines in established banking institutions for EMPRETEC businesses. In spite of the facilities in place from the World Bank and the regional development banks, there is a critical need to match them with the enterprises which need the financing, especially those with capital requirements in the $50,000 to $500,000 range. There is also a need to explore other avenues such as venture capital companies; for example, the Venture Capital Company of Zimbabwe, which has been successfully operating since 1991. Finally, there is a need to develop workshops or seminars to educate entrepreneurs on other potential sources such as supplier's credit, or subcontracting advances, or bank discounting.

98. Globalization of the programme has moved forward with the recent global meeting in Brazil of African and Latin American Empretecos. This trend should be continued and extended to include Empretecos from Asia and economies in transition. Also, ways should be explored to extend EMPRETEC expertise to a much larger population within each country. The traditional EMPRETEC approach is restricted to Empretecos, who number now over 2,000. Other approaches, perhaps in cooperation with existing organizations in the country, should be studied to permit a larger impact, for instance by involving the over 23,000 applicants to the programme who were not selected to take the two-week entrepreneurship training workshops. In addition, by making the services provided by INNET available for a fee to the broader business community in each country, the EMPRETEC Business Support offices could be expanded into national centres for export and investment information/opportunities, while providing a source of income to support the national programmes.

99. EMPRETEC has proven to be a cost-effective and efficient programme to develop entrepreneurs, stimulate economic growth, promote regional integration and establish the necessary linkages between an emerging entrepreneurial class and the established business community. But, as emphasized earlier, EMPRETEC can only be effective in an enabling environment for entrepreneurship development where individuals are given the incentive and opportunity to start and operate a business.

100. EMPRETEC has received requests from over a dozen and a half countries in Africa, Asia, Latin America and Eastern Europe. Many of these countries have economies in transition and are presently in need of a programme to help an emerging class of entrepreneurs. New programmes, however, will also enlarge the EMPRETEC network, opening up new business opportunities for participants in existing programmes and responding to the growing need of entrepreneurs with smaller businesses to shift their operations across new borders.

Notes

1/ EMPRETEC is the Spanish acronym for "emprendedores" (entrepreneurs) and "tecnologia" (technology).

2/ In recognition of the importance of entrepreneurship for economic development, the General Assembly adopted resolutions 45/188 and 46/166, both titled "Entrepreneurship". In its resolution 45/188, the Assembly acknowledged the important role of entrepreneurship, notably the small- and medium-sized enterprises in mobilizing resources and in promoting economic growth and socio-economic development and welcomed the contribution which the United Nations system made in helping Member States promote entrepreneurship. In its resolution 40/166, the Assembly called upon the organs, organizations and bodies of the United Nations system, as appropriate, to promote entrepreneurship, when requested, by supporting the national efforts of countries and the measures they may adopt through market-oriented approaches to further the development of entrepreneurship and to help overcome the constraints they may face in this regard.

3/ The word entrepreneurship is derived from the French word "entreprendre", which means to undertake, to pursue opportunities, or to fulfil needs and wants through innovation or the establishment of an enterprise. Entrepreneurship is often defined as a set of special risk-taking qualities possessed by people who start or operate small- to medium-scale enterprises.

4/ There are other entrepreneurship development programmes sponsored by such organizations as UNIDO, the International Trade Centre, and by donor country agencies and NGOs that fall under one of the three categories discussed in paras. 10 through 15. A more complete description of such programmes is available through ILO's INTERMAN project, ILO, Geneva, Switzerland.

5/ Graduates of the two-week entrepreneurship training workshops. Every EMPRETEC-sponsored activity subsequent to these workshops is open only to Empretecos to ensure the high quality of the programme.

6/ The panels are set up by the National Programme Director at the conclusion of each training workshop. Members of the panel may vary from workshop to workshop, thus giving an opportunity to a broader cross-section of the banking and business community to get acquainted with the programme, and the projects.

7/ INNET is an information network recently established by the executing organization to facilitate export-oriented linkages between Empretecos and other businesses.

8/ A technology development programme to be implemented, wherever possible, in conjunction with existing EMPRETEC programmes is currently under preparation in UNCTAD.

9/ Development of regional networks for stimulating inter-country linkages has always been a basic tenet of the EMPRETEC approach. With this in mind, several programmes in Latin America, for which funding was provided by the Italian Government, were established before expanding to Africa, were programmes were initiated in Nigeria, Ghana and Zimbabwe with UNDP funding. In late 1992 a mission was fielded to Pakistan, for which a programme proposal was submitted but funding has not been approved as yet. Staffing and funding constraints at EMPRETEC headquarters have made it difficult to initiate programmes in Asia and to follow up on requests received in the course of 1993.